China Dredging Environment Protection Holdings Limited
中國疏浚環保控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 871)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board (the "Board") of directors (the "Director(s)") of China Dredging Environment Protection Holdings Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 (the "Reporting Period"), together with the unaudited comparative figures for the six months ended 30 June 2016 as follows, which are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and are presented in Renminbi ("RMB"):

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**335,761**	346,187
Operating costs		**(190,679)**	(227,362)
Gross profit		**145,082**	118,825
Other income		**11,270**	17,480
Other gains and losses		**7,676**	24,886
Marketing and promotion expenses		**(4,283)**	(5,679)
Administrative expenses		**(34,134)**	(26,437)
Finance costs		**(41,520)**	(35,619)

		Six months ended 30 June	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Profit before tax		**84,091**	93,456
Income tax expense	*5*	**(29,030)**	(28,867)
Profit and total comprehensive income for the period	*6*	**55,061**	64,589
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**52,215**	62,040
Non-controlling interests		**2,846**	2,549
		55,061	64,589
Earnings per share	*7*		
— basic (RMB cents)		**3.50**	5.0
— diluted (RMB cents)		**3.50**	5.0

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,612,940**	1,639,358
Prepaid land lease payments		**103,574**	105,210
Investment properties		**416,222**	413,194
Goodwill		**201**	201
Other intangible asset		**4,625**	4,750
Deposit paid for acquisition of property, plant and equipment		**77,753**	85,642
Deferred tax assets		**103,323**	103,323
Accounts and other receivables due after one year	*8*	**77,503**	89,887
		2,396,141	2,441,565
CURRENT ASSETS			
Prepaid land lease payments		**3,073**	3,075
Accounts and other receivables and prepayments	*8*	**1,490,553**	1,336,508
Pledged bank deposits		**80,000**	15,000
Bank balances and cash		**9,979**	34,500
		1,583,605	1,389,083
CURRENT LIABILITIES			
Accounts and other payables	*9*	**478,232**	485,146
Amounts due to directors		**63,272**	28,480
Amounts due to non-controlling interests of a subsidiary		**1,764**	2,476
Tax payable		**152,280**	130,548
Bank borrowings	*10*	**530,192**	485,215
Other borrowings		**66,580**	67,538
Bonds payable	*11*	**251,537**	246,381
		1,543,857	1,445,784
NET CURRENT ASSETS (LIABILITIES)		**39,748**	(56,701)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,435,889**	2,384,864

	Notes	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital		**123,483**	123,483
Reserves		**2,038,098**	1,985,883
Equity attributable to owners of the Company		**2,161,581**	2,109,366
Non-controlling interests		**162,982**	160,136
TOTAL EQUITY		**2,324,563**	2,269,502
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests of a subsidiary		**63,155**	67,611
Deferred tax liabilities		**14,367**	14,367
Other borrowings		**33,804**	33,384
		111,326	115,362
		2,435,889	2,384,864

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. GENERAL AND BASIS OF PREPARATION

The Company was incorporated as an exempted company with limited liability under the Companies Law of Cayman Islands and its shares ("Shares") are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The condensed consolidated financial statements are presented in RMB, which is also the functional currency of the Company.

For the purpose of listing the Shares on the Stock Exchange in 2011, the entities in the Group underwent a series of reorganisation steps to rationalise the group structure (the "Reorganisation"). As part of the Reorganisation, Jiangsu Xingyu Holdings Group Limited* (江蘇興宇控股集團有限公司) (formerly known as Jiangsu Xingyu Port Construction Company Limited 江蘇興宇港建有限公司) ("Jiangsu Xingyu"), Jiangsu Xiangyu Port Construction Project Administration Company Limited* (江蘇翔宇港建工程管理有限公司) ("Xiangyu PRC"), Mr. Liu Kaijin ("Mr. Liu") and Ms. Zhou Shuhua ("Ms. Zhou") entered into a series of agreements (the "Contractual Arrangements") on 19 April 2011. Details of the principal terms of the Contractual Arrangements are set out in the Company's prospectus dated 8 June 2011 in the section headed "Contractual Arrangements".

As Jiangsu Xingyu and its subsidiaries, Xiangyu PRC and other companies comprising the Group have been under common control of Mr. Liu since their respective establishment dates, the Reorganisation including the execution of the Contractual Arrangements is considered as a business combination under common control. Accordingly, both Jiangsu Xingyu and its subsidiaries and Xiangyu PRC are accounted for as subsidiaries of the Company throughout the periods presented on a merger basis. Their assets, liabilities and results are included in the condensed consolidated financial statements of the Group as if the Company had always been their parent company.

2. GOING CONCERN BASIS OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

During the year ended 31 December 2016, the Group had not settled the convertible bonds (the "Bonds", see Note 11) when the Bonds fell due for repayment on their maturity date. The Bonds remained overdue for repayment as at the end of the Reporting Period. On 21 March 2017 and 5 June 2017, the Company and CITIC Capital China Access Fund Limited (the "Bondholder" or "CITIC") entered into the Second Amendment Agreement and the Third Amendment Agreement (both as defined in Note 11) pursuant to which the Company needs to repay the principal amount of the Bonds of approximately HK$289,957,000 (equivalent to approximately RMB 251,537,000) together with the interest amount due by 21 September 2017.

The conditions described above indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the condensed consolidated financial statements were prepared based on the assumption that the Group can be operated as a going concern and the Directors are of the view that the Group will have sufficient working capital to finance its operations in the next twelve months from 30 June 2017, after taking into consideration of the following:

(1) The Group continues to generate cash inflows from its operating activities by implementing measures to tighten cost controls over various operating expenses in order to improve its cash flows position and to generate greater positive cash inflows from its operations in the future;

(2) Since most of the bank borrowings as at 30 June 2017 were secured by the Group's assets and highly probable that they can be renewed in the next twelve months; and

(3) As at 30 June 2017, the Group has unutilised banking facilities of RMB463.1 million which will be available for use by the Group in the next twelve months.

On the basis of the above consideration, the Directors believe that the Group can satisfy its financial obligations in the foreseeable future and accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at fair values at the end of each reporting period.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the Reporting Period are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2016.

The application of the following amendments to Hong Kong Financial Reporting Standards issued by the HKICPA that are mandatorily effective for annual periods that begin on or after 1 January 2017 has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs (2014–2016 Cycle)	

4. REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the executive Directors who are also the chief operating decision makers that are used to make strategic decisions. Information reported to the Chief Operating Decision Makers ("CODM") is based on the different nature of projects carried out by the Group. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Details of the Group's four reportable segments are as follows:

(i) Capital and Reclamation Dredging Business refers to the capital and reclamation dredging services and related consultation services provided by the Group;

(ii) Environmental Protection Dredging and Water Management Business refers to dredging or water management services or constructions for promoting environmental interests and water quality mainly for inland rivers provided by the Group;

(iii) Other Marine Business mainly comprises hoisting and installation of wind power generation equipment, other marine hoisting, installation, salvaging, vessel chartering and other engineering services provided by the Group; and

(iv) Property Management Business refers to the management of leasing of a shopping mall constructed by the Group.

Segment results

An analysis of the Group's reportable segment revenue and segment results is as below.

	Capital and Reclamation Dredging Business *RMB'000* (Unaudited)	**Environmental Protection Dredging and Water Management Business** *RMB'000* (Unaudited)	**Other Marine Business** *RMB'000* (Unaudited)	**Property Management Business** *RMB'000* (Unaudited)	**Total** *RMB'000* (Unaudited)
Six months ended 30 June 2017					
Segment revenue	**178,067**	**74,850**	**79,598**	**3,246**	**335,761**
Segment results	**85,106**	**17,201**	**11,002**	**1,631**	**114,940**
Unallocated other income					**10,460**
Other gains and losses					**7,676**
Unallocated corporate expenses					**(10,619)**
Unallocated finance costs					**(38,366)**
Group's profit before tax					**84,091**

	Capital and Reclamation Dredging Business *RMB'000* (Unaudited)	Environmental Protection Dredging and Water Management Business *RMB'000* (Unaudited)	Other Marine Business *RMB'000* (Unaudited)	Property Management Business *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Six months ended 30 June 2016					
Segment revenue	183,705	82,827	77,956	1,699	346,187
Segment results	74,552	24,794	6,926	(2,623)	103,649
Unallocated other income					17,434
Other gains and losses					24,886
Unallocated corporate expenses					(20,358)
Unallocated finance costs					(32,155)
Group's profit before tax					93,456

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3 to the condensed consolidated financial statements.

Segment results represent profit earned by each segment, without allocation of central administrative expenses, other gains and losses, certain other income and certain finance costs. This is the measure reported to the executive Directors for the purposes of resource allocation and performance assessment.

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	**29,030**	29,712
Deferred taxation	**—**	(845)
	29,030	28,867

(i) PRC EIT

PRC EIT is calculated at 25% of the assessable profits for both periods.

(ii) Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods, if any.

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group had no assessable profits arising in or derived from Hong Kong for both periods.

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**46,541**	49,802
Depreciation of investment properties under construction	**—**	2,366
Amortisation of other intangible asset	**125**	83
Net foreign exchange (gain) loss	**(7,676)**	5,931
Sub-contracting charges included in operating costs	**134,203**	89,813

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**52,215**	62,040
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,478,064**	1,232,064

The weighted average number of shares for the purposes of basic earnings per share for both periods were calculated based on the weighted average number of shares in issue during both periods.

The computation of diluted earnings per share for the six months period ended 30 June 2016 did not assume the conversion of the Company's outstanding Bonds, since their exercise would result in an increase in earnings per share. As disclosed in Note 11, the conversion options embedded in the Bonds are no longer exercisable after 7 November 2016, the Group does not have any potential ordinary shares as at 30 June 2017.

8. ACCOUNTS AND OTHER RECEIVABLES

	At 30 June 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
Non-current:		
Accounts receivables	**75,706**	88,090
Value-added tax recoverable	**1,797**	1,797
	77,503	89,887
Current:		
Accounts receivables	**1,425,498**	1,272,936
Bills receivable	**4,962**	4,312
Government financial incentive receivables	**17,137**	10,407
Deposits and prepayments	**34,874**	40,643
Others	**8,082**	8,210
	1,490,553	1,336,508
	1,568,056	1,426,395

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits based on reputation of the customers within the industry.

The aged analysis of the Group's accounts receivables, prepared based on the dates of certification of work done, which approximate the respective revenue recognition dates (net of allowance on accounts receivables), at the end of each reporting period is as follows:

Aged analysis of the Group's accounts receivables

	At 30 June 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
0–30 days	**80,254**	117,338
31–60 days	**58,472**	66,517
61–90 days	**55,317**	69,072
91–180 days	**138,160**	101,847
181–365 days	**365,832**	212,753
1 year–2 years	**510,370**	433,730
Over 2 years	**292,799**	359,769
	1,501,204	1,361,026

Included in the accounts receivables balance is retention money of approximately RMB182,000,000 (31 December 2016: RMB180,000,000) as at 30 June 2017.

The aged analysis of the Group's bills receivable, presented based on the relevant dates of certification of work, at the end of each reporting period is as follows:

Aged analysis of the Group's bills receivable

	At 30 June 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
0–30 days	**2,362**	1,500
31–60 days	**500**	—
61–90 days	**—**	2,100
91–180 days	**—**	712
Over 180 days	**2,100**	—
	4,962	4,312

9. ACCOUNTS AND OTHER PAYABLES

	At 30 June 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
Accounts payables		
Sub-contracting charge	**142,797**	132,044
Fuel cost	**46,642**	36,080
Repair and maintenance	**22,962**	15,270
Others	**24,382**	5,703
	236,783	189,097
Other payables		
Payable for property, plant and equipment	**8,768**	11,880
Payable for construction cost of investment properties/investment properties under construction	**82,941**	115,853
Accrued other taxes	**112,090**	111,630
Accrued staff salaries and welfare	**18,843**	26,576
Receipts in advance	**5,351**	9,036
Interest on the Bonds	**2,640**	4,334
Others	**10,816**	16,740
	241,449	296,049
	478,232	485,146

The aged analysis of the Group's accounts payables presented based on the invoice dates, except for sub-contracting charge which is presented based on dates of the progress certificates, as at the end of each reporting period is as follows:

	At 30 June 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
0–30 days	**80,259**	45,771
31–60 days	**6,046**	12,784
61–90 days	**6,239**	10,324
91–180 days	**21,804**	22,194
Over 180 days	**122,435**	98,024
	236,783	189,097

10. BANK BORROWINGS

During the Reporting Period, the Group raised bank loans of RMB356,961,000 (six months ended 30 June 2016: RMB335,288,000) and repaid bank loans of RMB328,176,000 (six months ended 30 June 2016: RMB428,292,000). As at 30 June 2017, the effective interest rates of the bank borrowings ranged from 3.81% to 10.44% (31 December 2016: 3.81% to 10.44%) per annum.

11. BONDS PAYABLE

The Company issued unsecured convertible bonds (the "Bonds") to CITIC at a total nominal value of HK$243,000,000 (equivalent to RMB191,970,000) on 8 November 2013, carrying an interest rate of 3% per annum with the maturity date of 7 November 2016 (the "Original Maturity Date"). The Bondholder had the option to either convert them into the Company's ordinary shares at a conversion price of HK$2.7 per share, subject to anti-dilutive adjustments, at any time after six months from the date of issue and up to the Original Maturity Date, or to require the Company to redeem them at 133.792% of the nominal value of the Bonds, which amounted to approximately HK$325,115,000 (equivalent to approximately RMB290,818,000) (the "Original Redemption Amount"), upon maturity. The Company had no right to early redeem the Bonds.

At the time when the Bonds were issued, the Bonds were analysed by the management of the Group to contain two components, the host debt component and the conversion option. The Bonds are denominated in HK$, which is a currency other than the Company's functional currency. Therefore, the conversion option in the Bonds does not exchange a fixed number of the Company's own equity instrument for a fixed amount of cash, denominated in HK$. Accordingly, the conversion option is accounted for separately as a derivative liability, which is not closely related to the host debt component. The fair values of the debt component and the derivative component were determined at the date of issue. Subsequent to initial recognition, the debt component was carried at amortised cost while the derivative component was measured at fair value, with changes in fair value recognised in profit or loss. The effective interest rate of the debt component was 16.9%.

The Group had not made the Original Redemption Amount and the last interest payment on the Original Maturity Date to CITIC. Overdue interest of approximately HK$945,000 (equivalent to approximately RMB840,000) was incurred. During the year ended 31 December 2016, the Company and CITIC entered into a framework agreement (as amended by supplemental framework agreements, collectively the "Framework Agreement") on 14 November 2016 and a standstill and amended agreement and supplemental deed to the original deed poll regarding the Bonds (the "Amendment Agreement") on 15 December 2016, pursuant to which CITIC agreed to a) extend the maturity from the Original Maturity Date to 14 March 2017 and b) reduce the principal amount of Original Redemption Amount to approximately HK$275,415,000 (equivalent to approximately RMB246,381,000), subject to certain conditions as stated in the Amendment Agreement.

Furthermore, the conversion option under the Bonds was removed under the Amendment Agreement. Accordingly, no embedded derivative was recognised at 31 December 2016 and at the end of subsequent accounting periods.

During the Reporting Period, the Company has settled approximately RMB8,879,000 to CITIC. The Company and CITIC entered into the second amendment agreement and supplemental deed to the original deed poll regarding the Bonds (the "Second Amendment Agreement") on 21 March 2017 and the third amendment agreement and supplement deed to the original deed poll regarding the Bonds (the "Third Amendment Agreement") on 5 June 2017 to further extend the maturity date to 21 September 2017 and to revise the principal amount of the Bonds to approximately HK$289,957,000 (equivalent to approximately RMB251,537,000), which included the interest incurred up to 4 June 2017.

Details of each of the agreements are set out in the announcements of the Company dated 7 November 2016, 15 November 2016, 16 November 2016, 16 December 2016, 22 March 2017 and 5 June 2017.

Based on the revised agreements, interest rates are as follows:

Period	**Interest rate per annum**
From 15 November 2016 and up to 14 December 2016	13%
From 15 December 2016 and up to 14 March 2017	15%
From 15 March 2017 and up to 4 June 2017	18%
From 5 June 2017 and up to 21 June 2017	13%
From 22 June 2017 and up to 21 September 2017	18%

Note: The above interest shall accrue on a day to day basis and be calculated on the basis of a 365-day calendar year on the Reduced Redemption Amount/revised principal amount and compounded on a monthly basis.

Under the abovementioned agreements entered into the Company and CITIC, the Bonds are personally guaranteed by Mr. Liu and Ms. Zhou, and certain subsidiaries of the Company shall pledge in favour of CITIC and/or its affiliates a dredger, and an industrial premises and a residential property.

The convertible bonds recognised in the condensed consolidated statement of financial position are calculated as follows:

	Debt component *RMB'000*	Conversion option (derivative component) *RMB'000*	Total *RMB'000*
As at 1 January 2016	249,553	7,030	256,583
Amortisation using effective interest method	30,668	—	30,668
Interest settlement	(3,150)	—	(3,150)
Changes in fair value	—	(7,030)	(7,030)
Accrued overdue interests	840	—	840
Amounts waived under the Framework Agreement	(13,781)	—	(13,781)
Settlement under the agreements	(34,453)	—	(34,453)
Exchange realignment	16,704	—	16,704
Accrued interests	4,334	—	4,334
At 31 December 2016	250,715	—	250,715
Accrued interests	20,688	—	20,688
Settlement	(8,879)	—	(8,879)
Exchange realignment	(8,347)	—	(8,347)
At 30 June 2017	254,177	—	254,177

The bonds as the end of the reporting periods are represented by:

	At 30 June 2017 ***RMB'000*** **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
Interest payable within one year included in other payable	**2,640**	4,334
Bonds payable within one year	**251,537**	246,381
	254,177	250,715

12. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the Reporting Period, the Group paid rentals of RMB48,000 (six months ended 30 June 2016: RMB48,000) to certain companies controlled by Mr. Liu, an executive Director and the chairman and the ultimate controlling shareholder of the Company, in respect of office premises.

In addition, the Group received other advances from, and made repayments to, Mr. Liu during the six months ended 30 June 2017 and 2016. As at 30 June 2017, the amount due to Mr. Liu was RMB60,856,000 (31 December 2016: RMB26,499,000).

(ii) Pledge of assets and guarantees in support of the Group's borrowings

As at 30 June 2017 and 31 December 2016, other than pledge of assets of the Group, the Group's bank borrowings were also supported by:

(a) corporate guarantee given by Xiangyu PRC;

(b) personal guarantees provided by Mr. Liu and Ms. Zhou, a director of the Company; and

(c) two properties owned by certain non-controlling shareholders of the Company's subsidiary.

In addition, as at 30 June 2017 the Group's bank borrowings to the extent of RMB133 million (31 December 2016: RMB98 million) was partially supported by a property owned by a company in which Mr. Liu has beneficial interest.

(iii) Compensation of key management personnel

Details of the emoluments paid or payable to the Directors and the chief executive of the Company during each period are as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short-term benefits	**1,050**	1,050
Post-employment benefits	**—**	—
	1,050	1,050

OVERVIEW

The Group is primarily engaged in dredging business, which can be divided into three main operating and reportable segments, namely, (i) capital and reclamation dredging business ("CRD Business"); (ii) environmental protection dredging ("EPD") and water management business ("EPD and Water Management Business"); and (iii) other works operated in marine sites such as hoisting works ("Other Marine Business"). In addition, the Group also commenced property management business (the "Property Management Business") in respect of the management of 居然之家鹽城店 (Easyhome Yancheng Shopping Mall*).

BUSINESS REVIEW

During the Reporting Period, the Group recorded a revenue of approximately RMB335.8 million, representing a decrease of 3.0% from approximately RMB346.2 million the same period last year. Gross profits was approximately RMB145.1 million, representing a 22.1% increase from RMB118.8 million over the same period last year. Net profit was approximately RMB55.1 million, representing a decrease of approximately 14.8% from approximately RMB64.6 million the first half of 2016. The Group recorded profits attributable to Shareholders of approximately RMB52.2 million for the Reporting Period.

CRD is the Group's core business. Despite a decrease in income generated by CRD during the Reporting Period, the gross profit margin generated from this business segment continues to increase, showing a growth of 7.2 percentage points to 47.8% over the first half of 2016, due to our adoption of a robust and prudent business strategy and conducting deeper and more meticulous background research and due diligence on newly contracted projects, including but not limited to the feasibility of financing, natural conditions and construction status of the projects, in order to ensure that the capital return of such projects are reliable and that gross profits is more manageable.

The EPD and Water Management Business segment is a business that the Group proactively expands and develops. Due to the sludge dewatering equipment produced by the Group for the sole use of EPD projects, it is expected that the Group's EPD capacity will be increased by 2 million cubic meters to 10 million cubic meters per annum by the end of this year, up from 8 million cubic meters per annum in the second half of 2016.

Other Marine Business refers to services including hoisting and installation of wind power generation equipment, bulk material installation in dock and bridge construction, underwater pipeline installation and other engineering services. With the development of the global economy, the market for wind energy, as a clean renewable energy, has also developed rapidly. Domestically, there is a strong surge of enthusiasm in offshore wind power construction currently, and the Group is refitting part of its fleet in order to grasp more such business opportunities.

Easyhome Yancheng Shopping Mall, located in the core area of Yancheng National High-tech Industrial Development Zone of the government administration centre of Yandu District, Yancheng City, Jiangsu Province, the PRC with a gross floor area of 75,600 square meters and used for commercial leasing under the Property Management business, is a large scale shopping centre themed on home building materials which mainly provides customers with "one-stop" services for items such as furniture, household products and furnishing and decoration materials. Currently, Easyhome Yancheng Shopping Mall has approximately 100 tenants, including renowned home furnishing brands Steel-Land (詩帝羅蘭), Cheers (芝華仕) and M&Z Furniture (掌上明珠). The Group hopes that, through the "Easyhome" brand and its business model, we will gain popularity and raise brand influence, as well as obtain long-term and stable rental income in order to provide steady cash flow support for the Group's further expansion of our environmental protection business.

The Group is constructing a 17-floor hotel with 200 guest rooms situated at the west side of Caihong Road, Yancheng City, Jiangsu province, the PRC with a gross floor area of 20,000 square meters, which is preliminarily estimated to be completed by the end of 2018, with the principal part of the hotel's construction already capped. It is believed that when the hotel comes into operation, it will also provide a steady cash flow support for the Group's expansion of our environmental protection business.

FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group recorded a revenue of approximately RMB335.8 million, representing a decrease of 3.0% as compared with approximately RMB346.2 million in the corresponding period of 2016. The decrease in the revenue of the Group during the Reporting Period is mainly due to the adoption of more prudent selection criteria in undertaking the construction projects.

Regarding the CRD Business segment and EPD and Water Management Business segment, the respective revenues generated during the Reporting Period were approximately RMB178.1 million and approximately RMB74.9 million which represented a decrease of 3.1% and 9.6% respectively from the corresponding segments' revenue in the corresponding period of 2016. The decrease in revenue from the CRD Business segment was primarily due to the drop in numbers of newly contracted construction projects as the Group implemented a more prudent and careful operating strategy in selecting projects. The decrease in revenue from EPD and Water Management Business segment for the Reporting Period was due to the slow progress and relatively long pre-construction preparation works of new EPD projects.

Other Marine Business contributed a revenue of approximately RMB79.6 million to the Group for the Reporting Period, which represented an increase of 2.1% as compared with approximately RMB78.0 million in the corresponding period of 2016.

The revenue of the Property Management Business for the Reporting Period was approximately RMB3.2 million, which represented an increase of 91.1% as compared with approximately RMB1.7 million in the corresponding period of 2016.

Operating costs and gross profit

The Group's operating costs significantly decreased from approximately RMB227.4 million for the six months ended 30 June 2016 to approximately RMB190.7 million for the Reporting Period, representing a decrease of 16.1%, which was due to the implementation of effective cost control measures.

The Group recorded a gross profit of approximately RMB145.1 million for the Reporting Period, representing an increase of 22.1% as compared with the six months ended 30 June 2016 of RMB118.8 million. The increase in gross profit was mainly due to the better gross profit margin for the newly contracted projects resulting from the adoption of a more pursuant selection criteria by the Group and also the start of new hoisting and installation of wind power generation equipment business during the Reporting Period.

The segment gross profit margin of CRD Business increased from 40.6% for the six months ended 30 June 2016 to 47.8% for the Reporting Period, mainly due to the better gross profit terms for new capital and reclamation dredging projects which had been screened during the Reporting Period.

The segment gross profit margin of EPD and Water Management Business for the Reporting Period was 23.0% which was lower than 29.9% for the corresponding period last year.

The segment gross profit margin of Other Marine Business increased by 4.9 percentage points from 8.9% for the six months ended 30 June 2016 to 13.8% for the Reporting Period, mainly due to the start of new hoisting and installation of wind power generation equipment business during the Reporting Period.

As a result, the overall gross profit margin of the Group increased from 34.3% for the six months ended 30 June 2016 to 43.2% for the Reporting Period.

Other income

Other income decreased from approximately RMB17.5 million for the six months ended 30 June 2016 to approximately RMB11.3 million for the Reporting Period, mainly due to the decrease in interest income in respect of certain non-current accounts receivables during the Reporting Period.

Marketing and promotion expenses

Marketing and promotion expenses for the Reporting Period was approximately RMB4.3 million representing a decrease of 24.6% as compared with the six months ended 30 June 2016 of approximately RMB5.7 million, which was mainly due to the launch of a series of one-off marketing and promotion activities for the grand opening of Easyhome Yancheng Shopping Mall in March 2016 resulting in the expenses increasing dramatically in the same period of last year.

Administrative expenses

Administrative expenses of the Group for the Reporting Period amounted to approximately RMB34.1 million, representing an increase of 29.1% from approximately RMB26.4 million for the six months ended 30 June 2016. This was mainly due to the increase in depreciation and maintenance cost of the property and the increase in the related professional fees.

Finance costs

Finance costs increased by 16.6% to approximately RMB41.5 million for the Reporting Period as compared to the six months ended 30 June 2016.

Income tax expense

Although profit before tax for the Reporting Period decreased, income tax expense increased from approximately RMB28.9 million for the corresponding period in 2016 to approximately RMB29.0 million for the Reporting Period which was mainly due to the increase of the effective tax rate from 30.9% to 34.5%.

Profit for the period

As a combined effect of the above, the net profit for the period decreased by 14.8% from approximately RMB64.6 million for the six months ended 30 June 2016 to approximately RMB55.1 million for the Reporting Period.

Earnings per share

Basic earnings per Share for the Reporting Period was RMB0.035 per Share, representing a decrease of about 30.0% as compared to earnings per Share of RMB0.05 for the six months ended 30 June 2016.

Financial position

As at 30 June 2017, total equity of the Group amounted to approximately RMB2,324.6 million (31 December 2016: approximately RMB 2,269.5 million).

The Group's net current assets as at 30 June 2017 amounted to approximately RMB39.7 million (31 December 2016: net current liabilities approximately RMB56.7 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 30 June 2017 was 1.03 (31 December 2016: 0.96).

Liquidity and financial resources

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and improve the usage efficiency of funds, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in Renminbi and Hong Kong dollars.

Included in net current assets were cash and various bank deposits totaling approximately RMB90.0 million as at 30 June 2017, representing an increase of approximately RMB40.5 million as compared with approximately RMB49.5 million as at 31 December 2016.

The Group's accounts receivables as at 30 June 2017 increased by 10.3% from approximately RMB1,361.0 million as at 31 December 2016 to approximately RMB1,501.2 million.

Total liabilities of the Group increased from approximately RMB1,561.2 million as at 31 December 2016 to approximately RMB1,655.2 million as at 30 June 2017. The increase in total liabilities was mainly due to the increase of bank borrowings and amounts due to directors. The Group's gearing ratio (calculated by interest bearing instruments (including bank borrowings, other borrowings and convertible bonds) divided by total equity) increased to a level of 36.5% (2016: 35.2%), which the Board believes is at a healthy level.

Capital Structure of the Group

The capital structure of the Group consists of debts, which include amounts due to Directors, amounts due to non-controlling interests of a subsidiary, bank borrowings, other borrowings, the Bonds and equity reserves attributable to owners of the Company, comprising issued share capital and various reserves.

The Directors review the capital structure on a semi-annual basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

The Group's monetary assets, liabilities and transactions are mainly denominated in Renminbi and Hong Kong dollars. During the Reporting Period, most of the transactions were denominated and settled in Renminbi. The Group believes that its exposure to exchange rate risk is minimal. The Group recorded a net exchange gain amounting to RMB7.7 million during the Reporting Period.

Charge over assets of the Group

As at 30 June 2017, the Group's bank borrowings were secured by pledged bank deposits of approximately RMB80.0 million, charges over certain dredgers and land owned by the Group, a property owned by a company which Mr. Liu has beneficial interest, and personal guarantees by Mr. Liu and Ms. Zhou. There were also intra-group charges between two of the Company's wholly-owned subsidiaries as a result of the contractual arrangements, pursuant to which all economic benefits and risks arising from the business of 江蘇興宇控股集團有限公司 (Jiangsu Xingyu Holding Group Limited*) have been transferred to 江蘇翔宇港建工程管理有限公司 (Jiangsu Xiangyu Port Constructing Project Administration Co. Ltd.*).

Pursuant to the Amendment Agreement, the Second Amendment Agreement and the Third Amendment Agreement entered into between the Company and CITIC on 15 December 2016, 21 March 2017 and 5 June 2017 respectively in relation to the extension of the redemption of the Bonds to 21 September 2017, the Group shall pledge over a dredger, an industrial premises located in Jiangsu Province, the PRC and a residential property located in Shandong Province, the PRC in favour of CITIC and/or its affiliate. Please refer to the Company's announcements dated 16 December 2016, 22 March 2017 and 5 June 2017 for details.

Risk management policies

The Group in its ordinary course of business is exposed to market risks such as currency risk and interest rate risk. The Group's risk management strategy aims to minimise the adverse effects of these risks on its financial performance.

As most of the Group's trading transactions, monetary assets and liabilities were denominated mainly in Renminbi, which was the Group's functional and reporting currencies, and save for convertible bonds and certain bank borrowing and balances denominated in United States dollars and Hong Kong dollars, the foreign exchange gain recognised for the Reporting Period was approximately RMB7.7 million (30 June 2016: loss of approximately RMB5.9 million). The Group is giving full attention to respond to the related foreign exchange rate risks.

As current interest rates stay at relatively low levels, the Group has not entered into any interest rate hedging contracts or any other interest rate related derivative financial instrument. However, the Group continues to monitor its related interest rate exposure closely.

Material acquisitions and disposals

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

Capital commitments and contingent liabilities

As at 30 June 2017, the Group had capital commitments of approximately RMB125.9 million (31 December 2016: approximately RMB125.9 million) which mainly included the construction cost of approximately RMB118.8 million for a hotel.

As at 30 June 2017, the Group did not have any material contingent liability (31 December 2016: nil).

PROSPECTS

Looking towards the future, as mainland China pursues an "intensified construction of an ecological civilisation", the Central Government continues to promote various environmental management policies in 2017, which brings a lot of business opportunities for the dredging industry. Meanwhile, with the enormous potential and boundless prospects for wind power and technological advancement and development in the green industry, wind power will be fully able to compete commercially with coalfired power. The Group will strengthen its research and development investment in the environmental protection business and are committed to continuously accumulating its leading edge on technology, in order to build a solid foundation for the Group's future development.

At the same time, in our Property Management Business segment, the Group will also continue to expand our brand influence and streamline management, in order to obtain a stable revenue source from rental, so as to provide a stable cash flow support for the Group's further expansion in our environmental protection business in future.

As for capital operation, the Group will actively identify and materialise healthy and feasible financial plans based on the progress of our business development, so as to provide the necessary support for the operations of our projects and technological research and development.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2016, the Group had a workforce of 620 employees (31 December 2016: 645). Total staff cost for the Reporting Period was about RMB21.1 million (30 June 2016: approximately RMB25.1 million). The Group's remuneration policy is basically determined by the Directors, based on the performance of individual employees and the market conditions. In addition to salaries and discretionary bonuses, employee benefits included pension contributions and options which may be granted under the share option scheme (under which options to subscribe for shares of the Company that could be granted to independent non-executive Directors would be subject to the applicable conditions and independence restrictions as set out in the Listing Rules). The Group also provides on-going training to its employees.

During the Reporting Period, the Group did not experience any strikes, work stoppages or significant labour disputes which affected its operations or any significant difficulties in recruiting and retaining qualified staff.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to high standards of corporate governance. The Directors believe that the Company has complied with all the applicable code provisions of the Corporate Governance Code ("CG Code") contained in Appendix 14 of the Listing Rules for the Reporting Period and there was no material deviation from the CG Code.

AUDIT COMMITTEE AND REVIEW OF UNAUDITED FINANCIAL STATEMENTS

The audit committee of the Company ("Audit Committee") has been set up in accordance with the Listing Rules. Members of the Audit Committee as at 30 June 2017 comprised Mr. Chan Ming Sun Jonathan (chairman), Mr. Huan Xuedong and Mr. Liang Zequan, all of whom are independent non-executive Directors.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group, financial reporting matters including a review of the unaudited consolidated results for the Reporting Period prior to recommending them to the Board for approval.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the websites of the Company *(www.cdep.com.hk)* and the Stock Exchange *(www.hkexnews.hk)*. An interim report for the Reporting Period containing all the information required by Appendix 16 to the Listing Rules will be despatched to shareholders of the Company and available on the above websites in due course.

By order of the Board
China Dredging Environment Protection Holdings Limited
Liu Kaijin
Chairman and executive Director

Hong Kong, 29 August 2017

As at the date of this announcement, the Board comprises Mr. Liu Kaijin as Chairman and Executive Director; Mr. Wu Bin as Vice Chairman and Executive Director, Mr. Wu Xuze as Executive Director and Chief Executive Officer; and Ms. Zhou Shuhua as executive Director; Mr. Liu Longhua as non-executive Director and Vice Chairman; and Mr. Huan Xuedong, Mr. Chan Ming Sun Jonathan and Mr. Liang Zequan as Independent Non-executive Directors.

* *for identification purpose only*