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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

FINANCIAL RESULTS

The board (the “Board”) of directors (the “Director(s)”) of China Dredging Environment Protection Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2015, together with the audited comparative figures for the year ended 31 December 2014 as follows, which are presented in Renminbi (“RMB”), the lawful currency of the People’s Republic of China (the “PRC”):

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	<i>Notes</i>	2015 RMB'000	2014 RMB'000
Revenue	4	700,996	910,592
Operating cost		<u>(474,318)</u>	<u>(648,275)</u>
Gross profit		226,678	262,317
Other income	5	38,042	43,983
Other gains and losses, net		(396,572)	(24,191)
Marketing and promotion expenses		(8,633)	(10,725)
Administrative expenses		(41,261)	(40,402)
Finance costs		<u>(55,587)</u>	<u>(68,837)</u>
(Loss) profit before tax		(237,333)	162,145
Income tax credit (expense)	6	<u>46,822</u>	<u>(53,566)</u>
(Loss) profit and total comprehensive (expense) income for the year	7	<u><u>(190,511)</u></u>	<u><u>108,579</u></u>
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		(197,864)	92,524
Non-controlling interests		<u>7,353</u>	<u>16,055</u>
		<u><u>(190,511)</u></u>	<u><u>108,579</u></u>
(Loss) earnings per share	8		
— basic (RMB)		<u><u>(0.19)</u></u>	<u><u>0.11</u></u>
— diluted (RMB)		<u><u>(0.19)</u></u>	<u><u>0.11</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	<i>Notes</i>	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,658,604	1,726,628
Prepaid land lease payments		100,773	95,105
Investment properties under construction		307,702	—
Goodwill		2,956	2,956
Available-for-sale investment		20,921	20,921
Deposit paid for acquisition of property, plant and equipment		79,377	9,502
Deferred tax assets		100,354	7,106
Accounts and other receivables due after one year	<i>10</i>	206,442	191,991
Pledged bank deposits		15,000	—
		<u>2,492,129</u>	<u>2,054,209</u>
CURRENT ASSETS			
Prepaid land lease payments		2,908	2,554
Accounts and other receivables and prepayments	<i>10</i>	1,180,985	1,232,692
Pledged bank deposits		47,572	20,794
Bank balances and cash		153,569	158,339
		<u>1,385,034</u>	<u>1,414,379</u>
CURRENT LIABILITIES			
Accounts and other payables	<i>11</i>	497,670	430,243
Amounts due to directors		19,098	2,833
Amounts due to non-controlling interests of a subsidiary		1,644	1,644
Tax payable		112,827	111,033
Bank borrowings	<i>12</i>	716,405	592,349
Other borrowings	<i>12</i>	495	1,362
Convertible bonds		246,510	—
Derivative financial liabilities embedded in convertible bonds		7,030	—
		<u>1,601,679</u>	<u>1,139,464</u>
NET CURRENT (LIABILITIES) ASSETS		<u>(216,645)</u>	<u>274,915</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,275,484</u>	<u>2,329,124</u>

	<i>Notes</i>	2015 RMB'000	2014 RMB'000
CAPITAL AND RESERVES			
Share capital		102,045	71,592
Reserves		<u>1,863,236</u>	<u>1,712,540</u>
Equity attributable to owners of the Company		1,965,281	1,784,132
Non-controlling interests		<u>158,136</u>	<u>150,783</u>
TOTAL EQUITY		<u>2,123,417</u>	<u>1,934,915</u>
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests of a subsidiary		85,533	89,333
Deferred tax liabilities		16,046	17,753
Bank borrowings	<i>12</i>	18,195	39,058
Other borrowings	<i>12</i>	32,293	32,939
Convertible bonds	<i>13</i>	—	198,461
Derivative financial liabilities embedded in convertible bonds	<i>13</i>	—	14,423
Derivative financial liabilities in relation to warrants		<u>—</u>	<u>2,242</u>
		<u>152,067</u>	<u>394,209</u>
		<u>2,275,484</u>	<u>2,329,124</u>

NOTES:

1. GENERAL, REORGANIZATION AND BASIS OF PRESENTATION

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”) with effect from 20 June 2011. The Company’s immediate and ultimate holding company is Wangji Limited, a limited liability company incorporated in the British Virgin Islands, which is ultimately and wholly owned by Mr. Liu Kaijin (“Mr. Liu”), who is the executive Director, joint chairman and chief executive officer of the Company.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values and in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and by the Hong Kong Companies Ordinance.

For the purpose of listing (“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 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 consolidated financial statements of the Group as if the Company had always been their parent company.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows include the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the period presented or since their respective date of incorporation or establishment.

2. GOING CONCERN BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

The Group has net current liabilities of approximately RMB216.6 million. The Directors have carefully assessed the Group’s liquidity position having taken into account of (i) the estimated operating cash flows of the Group for the next twelve months from the end of the reporting period; (ii) most of the bank borrowings as at 31 December 2015 were secured by the Group’s assets and are highly probable that they can be renewed in the next twelve months; and (iii) the Group’s unutilised banking facilities of RMB184.3 million as at 31 December 2015 which will be available in the next twelve months.

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

Amendments to HKAS 19	Defined Benefit Plans: Employee contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 cycle

The application of these amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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 is based on the different nature of projects carried out by 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) Dredging Related Construction Business refers to ancillary construction work related to the capital and reclamation dredging services provided by the Group; and
- (iv) Other Marine Business mainly comprises marine hoisting, installation, salvaging, vessel chartering and other engineering services provided 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	Environmental Protection Dredging and Water Management Business RMB'000	Other Marine Business RMB'000	Dredging Related Construction Business RMB'000	Total RMB'000
For the year ended 31 December 2015					
Segment revenue	<u>367,319</u>	<u>179,460</u>	<u>154,217</u>	<u>—</u>	<u>700,996</u>
Segment results	<u>131,782</u>	<u>53,730</u>	<u>22,148</u>	<u>—</u>	<u>207,660</u>
Unallocated other income					37,316
Other gains and losses, net					(396,572)
Unallocated corporate expenses					(33,768)
Unallocated finance costs					<u>(51,969)</u>
Group's loss before tax					<u>(237,333)</u>

	Capital and Reclamation Dredging Business RMB'000	Environmental Protection Dredging and Water Management Business RMB'000	Other Marine Business RMB'000	Dredging Related Construction Business RMB'000	Total RMB'000
For the year ended 31 December 2014					
Segment revenue	<u>474,417</u>	<u>208,451</u>	<u>174,433</u>	<u>53,291</u>	<u>910,592</u>
Segment results	<u>142,274</u>	<u>66,358</u>	<u>48,863</u>	<u>4,632</u>	262,127
Unallocated other income					24,245
Other gains and losses, net					(24,191)
Unallocated corporate expenses					(36,712)
Unallocated finance costs					<u>(63,324)</u>
Group's profit before tax					<u>162,145</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies.

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 Company's executive directors for the purposes of resource allocation and performance assessment.

5. OTHER INCOME

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Government financial incentive (<i>note</i>)	9,224	8,644
Bank interest income	6,376	7,650
Interest income in respect of non-current accounts receivable	14,781	18,381
Interest income in respect of consideration receivable	3,928	8,878
Interest income in respect of other receivable	3,052	—
Sundry income	<u>681</u>	<u>430</u>
	<u>38,042</u>	<u>43,983</u>

Note: Pursuant to a document issued by a PRC local government authority, one of the Company's PRC subsidiaries was granted financial incentive for a period of three years for its contribution to the economic development of the locality, provided it is duly registered in the locality and pays taxes according to tax laws. No other conditions are attached to the financial incentive.

The PRC local government authority confirmed that the amount for such financial incentive that the Group was entitled for the year ended 31 December 2015 was RMB9,224,000 (2014: RMB8,644,000). Accordingly, the Group recognised such amount as other income for the year.

6. INCOME TAX (CREDIT) EXPENSE

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
The charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	48,133	62,982
Deferred taxation	<u>(94,955)</u>	<u>(9,416)</u>
	<u>(46,822)</u>	<u>53,566</u>

The tax (credit) charge for the year can be reconciled to the (loss) profit before tax as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
(Loss) profit before tax	<u>(237,333)</u>	<u>162,145</u>
Tax at the PRC EIT rate of 25% (2014: 25%)	(59,333)	40,536
Tax effect of expenses not deductible for tax purpose	5,628	10,922
Tax effect of tax losses not recognised	8,249	2,108
Utilisation of tax losses previously not recognised	<u>(1,366)</u>	<u>—</u>
Tax (credit) charge for the year	<u>(46,822)</u>	<u>53,566</u>

(i) PRC EIT

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

(ii) Hong Kong Profits Tax

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

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

7. (LOSS) PROFIT FOR THE YEAR

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
(Loss) profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	1,735	2,762
Amortisation of intangible assets	—	2,560
Amortisation of prepaid land lease payments	2,671	2,342
Directors' emoluments	2,134	3,100
Other staff costs	47,932	50,837
Retirement benefit scheme contributions, excluding those of directors	3,521	3,296
Total staff costs	<u>53,587</u>	<u>57,233</u>
Allowance for doubtful debts	376,641	49,259
Gain on disposal of property, plant and equipment	(87)	(3,727)
Sub-contracting charges included in operating cost	<u>184,174</u>	<u>291,464</u>

8. (LOSS)/EARNINGS PER SHARE

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Earnings		
(Loss) profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	(197,864)	92,524
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss/earnings per share	1,036,947	844,288
Effect of dilutive potential ordinary shares:		
Share options	<u>—</u>	<u>5,671</u>
Weighted average number of ordinary shares for the purpose of diluted loss/earnings per share	<u><u>1,036,947</u></u>	<u><u>849,959</u></u>

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

The computation of diluted loss/earnings per share for both years does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease in loss per share for the year ended 31 December 2015 and an increase in earnings per share for the year ended 31 December 2014.

The computation of diluted loss/earnings per share for both years does not assume the exercise of the outstanding warrants since the exercise price of the warrants was higher than the average market price of the shares.

9. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2015 and 31 December 2014 respectively, nor has any dividend been proposed since the end of the reporting period.

10. ACCOUNTS AND OTHER RECEIVABLES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Non-current:		
Accounts receivable, net of allowance for doubtful debts	184,933	171,557
Value-added tax recoverable	1,705	5,630
Shareholder's loan to Yongheng (as defined in paragraph headed "Liquidity and Financial Resources")	14,804	14,804
Others	<u>5,000</u>	<u>—</u>
	<u>206,442</u>	<u>191,991</u>
Current:		
Accounts receivable, net of allowance for doubtful debts	936,591	1,101,026
Bills receivable	11,845	7,000
Government financial incentive receivables	21,168	11,944
Deposits and prepayments	31,828	18,943
Value-added tax recoverable	5,190	6,042
Consideration and accumulated interest receivable from Hongji Construction (as defined in paragraph headed "Liquidity and Financial Resources")	70,774	81,846
Loan receivables	95,000	—
Others	<u>8,589</u>	<u>5,891</u>
	<u>1,180,985</u>	<u>1,232,692</u>
	<u>1,387,427</u>	<u>1,424,683</u>

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

Aged analysis of the Group's accounts receivable

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
0–30 days	139,071	188,827
31–60 days	39,044	94,295
61–90 days	43,225	58,605
91–180 days	117,006	93,243
181–365 days	385,008	372,471
1 year–2 years	259,986	299,113
Over 2 years	<u>138,184</u>	<u>166,029</u>
	<u>1,121,524</u>	<u>1,272,583</u>

11. ACCOUNTS AND OTHER PAYABLES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Accounts payables		
Sub-contracting charge	178,635	203,161
Fuel cost	34,071	26,387
Repair and maintenance	12,100	11,341
Others	<u>4,970</u>	<u>2,473</u>
	<u>229,776</u>	<u>243,362</u>
 Bills payable	 <u>7,572</u>	 <u>5,653</u>
 Other payables		
Payable for property, plant and equipment	24,659	49,452
Payable for construction cost of investment properties under construction	69,863	—
Accrual other taxes	100,192	86,282
Accrual staff salaries and welfare	22,405	17,736
Receipts in advance	5,550	5,789
Interest on convertible bonds due within one year	3,043	5,759
Others	<u>34,610</u>	<u>16,210</u>
	<u>260,322</u>	<u>181,228</u>
	<u><u>497,670</u></u>	<u><u>430,243</u></u>

The aged analysis of the Group's accounts payables presented based on the invoice date, 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:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
0–30 days	56,848	101,484
31–60 days	5,786	38,087
61–90 days	13,381	12,001
91–180 days	15,809	6,059
Over 180 days	<u>137,952</u>	<u>85,731</u>
	<u><u>229,776</u></u>	<u><u>243,362</u></u>

12. BANK AND OTHER BORROWINGS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Secured bank borrowings		
Payment schedule according to contractual repayment terms		
Repayable within one year	708,707	589,189
Repayable in more than one year but not exceeding two years	18,195	20,863
Repayable in more than two years but not exceeding five years	<u>—</u>	<u>18,195</u>
	726,902	628,247
Unsecured bank borrowing that contains a repayable on demand clause	<u>7,698</u>	<u>3,160</u>
	734,600	631,407
Less: amount due for settlement within one year or contains a repayable on demand clause	<u>(716,405)</u>	<u>(592,349)</u>
	<u><u>18,195</u></u>	<u><u>39,058</u></u>
Unsecured other borrowings		
Without fixed repayment term and classified as current liabilities	495	1,362
Classified as non-current liabilities	<u>32,293</u>	<u>32,939</u>
	<u><u>32,788</u></u>	<u><u>34,301</u></u>

13. CONVERTIBLE BONDS/DERIVATIVE FINANCIAL LIABILITIES EMBEDDED IN CONVERTIBLE BONDS

The Company issued unsecured convertible bonds to CITIC Capital China Access Fund Limited (“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. These convertible bonds mature in three years from the date of issue. The convertible bond holder has 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 maturity date, or to require the Company to redeem them at 133.792% of the nominal value of the convertible bonds upon maturity, without early redemption option. The issuer has no right to early redeem the convertible bonds.

The convertible bonds contain two components, the host debt component and the conversion option. The convertible bonds are denominated in Hong Kong Dollars (“HK\$”), which is a currency other than the Company’s functional currency. Therefore, the conversion option in the convertible 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 is carried at amortised cost while the derivative component is measured at fair value, with changes in fair value recognised in profit or loss. The effective interest rate of the debt component is 16.9%.

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

	Debt component	Derivative component	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2014	177,815	37,768	215,583
Amortisation using effective interest method	32,165	—	32,165
Changes in fair value	—	(23,345)	(23,345)
Interest settlement	<u>(5,760)</u>	<u>—</u>	<u>(5,760)</u>
At 31 December 2014	204,220	14,423	218,643
Amortisation using effective interest method	37,608	—	37,608
Changes in fair value	—	(7,921)	(7,921)
Interest settlement	(5,856)	—	(5,856)
Exchange realignment	<u>13,581</u>	<u>528</u>	<u>14,109</u>
At 31 December 2015	<u><u>249,553</u></u>	<u><u>7,030</u></u>	<u><u>256,583</u></u>

The convertible bonds at the end of the reporting periods are represented by:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Interest payable within one year included in other payables	3,043	5,759
Convertible bonds included as current liabilities	246,510	—
Convertible bonds included as non-current liabilities	<u>—</u>	<u>198,461</u>
	<u>249,553</u>	<u>204,220</u>

14. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the year, the Group paid rentals of RMB96,000 (2014: RMB96,000) to certain companies controlled by Mr. Liu in respect of office premises.

In addition, the Group received other advances from, and made repayments to, Mr. Liu during the year ended 31 December 2015 and 2014. As at 31 December 2015, the amount due to Mr. Liu was RMB17,806,000 (2014: RMB2,167,000).

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

As at 31 December 2015 and 31 December 2014, 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; and

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

Bank borrowing of the Group of RMB98 million (2014: RMB20 million) was supported by a property owned by a company in which Mr. Liu has beneficial interest.

15. EVENT AFTER THE REPORTING PERIOD

On 9 March 2016, following approval by Xiangyu PRC, Jiangsu Xingyu disposed its interests in Jiangsu Province Lugang Construction Project Co. Ltd (formerly known as Jiangsu Xingyu Environment Protection Company Limited) (“Lugang”) fully to independent third parties at a total consideration of RMB85.8 million. In the opinion of the Directors, with reference to opinion of the PRC legal counsel of the Company, the disposal does not have any impact on the Group's contractual arrangement structure. Details of the disposal are set out in the announcement of the Company dated 9 March 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group has four main operating and reportable segments, namely, (i) capital and reclamation dredging business (“CRD Business”); (ii) environmental protection dredging and water management business (“EPD and Water Management Business”); (iii) ancillary construction work related to the capital and reclamation dredging (“Dredging Related Construction Business”); and (iv) other works operated in marine sites such as salvage and hoisting works (“Other Marine Business”).

Revenue

During the reporting period, the Group recorded a drop by about 23.0% amounting to approximately RMB209,600,000 in total revenue from RMB910,600,000 in the financial year of 2014 to about RMB701,000,000. As regards the CRD Business segment, the revenue generated during the reporting period was approximately RMB367,300,000, which represented a decrease of approximately 22.6% compared to the revenue in the year ended 31 December 2014. The decrease was due to the slowdown of the implementation of the construction projects in the domestic dredging industry, and the drop in number of new contracted construction projects as the Group implemented a more prudent and careful policy in selecting new projects. The EPD and Water Management Business segment recorded revenue of RMB179,500,000, which represented a decrease of approximately 13.9% from the corresponding segment’s revenue in the year ended 31 December 2014. The decrease was due to the slow progress in implementing certain EPD projects.

During the reporting period, the Group’s Dredging Related Construction Business did not generate any revenue as the Group did not take up any new projects. The revenue from the corresponding segment was approximately RMB53,300,000 for the year ended 31 December 2014. The Other Marine Business of the Group generated a revenue of approximately RMB154,200,000, decreased by 11.6% from the revenue of approximately RMB174,400,000 in the year ended 31 December 2014.

Operating Cost and Gross Profit

The Group’s operating cost decreased from about RMB648.3 million for the year ended 31 December 2014 to about RMB474.3 million for the reporting period, representing a decrease of about 26.8%. Coupled with the drop of the revenue as mentioned above, the Group recorded a gross profit of about RMB226.7 million for the reporting period, representing a decrease of about 13.6% as compared with the year ended 31 December 2014 of about RMB262.3 million.

The profit margin of CRD Business segment increased from about 30.0% for the year ended 31 December 2014 to about 35.9% for the reporting period. The approximately 19.7% increase of profit margin of CRD Business segment in the reporting period as compared to the year ended 31 December 2014 was due to the Group adopting higher thresholds for vetting and selection of the new projects during the reporting period.

The profit margin of EPD and Water Management Business decreased from about 31.8% for the year ended 31 December 2014 to about 29.9% for the reporting period, which is considered by the Directors to be acceptable.

During the reporting period, the profit margin of the Group's Other Marine Business decreased from 28.0% for the year ended 31 December 2014 to about 14.4% for the reporting period. The profit margin decreased by approximately 48.6% as compared to the year ended 31 December 2014. The relatively big drop in the profit margin was due to more intensive business competition and the rising staff costs during the reporting period.

Other Income

Other income decreased by about RMB5.9 million to about RMB38.0 million for the reporting period which was mainly due to the decrease in interest income for the receivables.

Net Gain Due to Fair Value Changes of Derivative Financial Liabilities

There was a non-cash gain of about RMB7.9 million due to the change of fair value of an unsecured convertible bonds which was issued to CITIC Capital China Access Fund Limited in November 2013 assessed as at 31 December 2014 and 31 December 2015, and a non-cash gain of about RMB2.2 million due to the change of fair value of warrants which were issued to several places in January 2014 (expired and ceasing to be exercisable on 18 January 2016) assessed as at 31 December 2014 and 31 December 2015. Therefore, a non-cash net gain of about RMB10.1 million under the category of other gains and losses was derived (2014: non-cash net gain of about RMB21.3million). Regarding the details of the unsecured convertible bonds and the warrants, please refer to the Company's announcements dated 28 October 2013, 8 November 2013, 24 December 2013, 9 January 2014, 17 January 2014 and 18 January 2016 respectively.

Allowance for doubtful debts

As a further prudent measure in managing the account receivables, an allowance for doubtful debts of aggregate sum of about RMB376.6 million was made based on the recoverability of the receivables for the reporting period (allowance for doubtful debts in 2014 was approximately RMB49.3 million in total). The allowance for receivables was made based on the assessment in recoverability and the judgement by the management after considering the estimated future cash flows discounted at the present value of the original effective interest rate.

Marketing and Promotion Expenses

Marketing and promotion expenses decreased by about RMB2.1 million from about RMB10.7 million for the year ended 31 December 2014 to about RMB8.6 million for the reporting period due to the marketing activities in the year conducted in a more cost effective way.

Administrative Expenses

Administrative expenses for the reporting period amounted to about RMB41.2 million, representing an increase of about 2.1% from RMB40.4 million for the year ended 31 December 2014.

Foreign Exchange Difference

Due to the fluctuation in the foreign exchange rate during the reporting period, part of the Group's bank borrowings and bank deposits were denominated in United States dollars and Hong Kong dollars. The foreign exchange difference of RMB30.2 million was recognised in the reporting period (2014: Nil).

Income Tax Expense

Due to the increase in loss before tax, income tax credit for the reporting period amounted to about RMB46.8 million, representing an increase of about RMB100.4 million compared with tax expense of RMB53.6 million in the year ended 31 December 2014. The increase was due to the deferred tax credit in respect of allowance for doubtful debts of approximately RMB93.2 million.

Loss for the Year

As a combination effect of the above, the loss for the reporting period was about RMB190,500,000, decreased by 275.4% as compared to profit of about RMB108,600,000 in the year ended 31 December 2014. If the impact of the non-cash net loss due to fair value changes of derivative financial liabilities, allowance for doubtful debts and the non-operating losses including foreign exchange difference not taken into account, the operating profit was decreased by about 15.0% as compared to that of the financial year of 2014.

Loss Per Share

Loss per share for the reporting period was RMB0.19 per share, representing a decrease of about 272.7% as compared to earnings per share of RMB0.11 per share in the year ended 31 December 2014.

Financial 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 mitigate the adverse effects of these risks on its financial performance in full measure.

As most of the Group's trading transactions, monetary assets and liabilities are denominated mainly in Renminbi, which is the Group's functional and reporting currency, and save for convertible bonds and certain bank borrowing and deposits denominated in United States dollars and Hong Kong dollars, the foreign exchange difference recognised during the reporting period was RMB30.1 million (2014: Nil). As at the end of the reporting period, no related hedge was made by the Group. However, 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.

Financial Position

As at 31 December 2015, the total equity of the Group amounted to about RMB2,123.4 million (2014: RMB1,934.9 million). The increase was mainly attributable to the increase of capital due to new shares issued during the reporting period.

The Group's net current liabilities as at 31 December 2015 amounted to about RMB216.6 million (2014: net current assets of RMB274.9 million). The current ratio, which is calculated by dividing current assets by current liabilities, as at 31 December 2015 was 0.86 (2014: 1.24).

Liquidity and Financial Resources

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and reduce the costs of funds as far as possible, the Group's treasury activities are under central management 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 which was about RMB201.1 million in total as at 31 December 2015, representing an increase of about RMB22.0 million as compared with that of about RMB179.1 million as at 31 December 2014.

Pursuant to the issue of new shares during the reporting period, an aggregate sum of about HK\$470.3 million (equivalent to about RMB379.0 million) being the subscription price for the shares issued was received by the Company.

The Group's accounts receivables as at 31 December 2015 amounted to about RMB1,121.5 million (2014: RMB1,272.6 million).

The overdue receivables as at 31 December 2015 decreased to about RMB780.2 million (2014: RMB800.7 million). To take a further prudent measure in managing the account receivables, the Group has decided to make an allowance for doubtful debts in an aggregate sum of about RMB376.6 million (2014: RMB49.3 million) during the reporting period.

Total liabilities of the Group as at 31 December 2015 were about RMB1,753.7 million (2014: RMB1,533.7 million). The increase was mainly attributable to the increase in bank loans in the sum of about RMB103.2 million and the increase in accounts payables by about RMB70 million.

The Group's gearing ratio (calculated by bank borrowings divided by total assets) increased to about 18.9% (2014: 16.5%), which the Board believes is at a healthy level.

Furthermore, subsequent to the reporting period, the Group has received all outstanding consideration and accumulated interest receivable from Yancheng City Hongji Construction Installation Engineering Company Limited* (鹽城市鴻基建裝安裝工程有限責任公司) (“Hongji Construction”) in respect of the transfer of 85% equity interest in Yancheng City Yongheng Properties Co. Ltd* (鹽城市咏恒置業有限公司) (“Yongheng”).

Charge Over Assets of the Group

As at 31 December 2015, the Group’s bank borrowings are secured by pledged bank deposits of about RMB62.6 million, charges over certain dredgers and land owned by the Group; properties owned by certain non-controlling shareholders of the Company’s subsidiary; 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 Jiangsu Xingyu have been transferred to Xiangyu PRC.

Material acquisitions and disposals

No material acquisitions and/or disposals were made during the reporting period.

Capital commitments and contingent liabilities

As at 31 December 2015, the Group had the following substantial capital commitment:

- (i) RMB24.0 million in relation to the investment in Hunan Xiangjiang Environmental Asset Investment Management Co Ltd* (湖南湘江環保產業投資管理有限公司) (“Hunan Investment”), a joint venture established with Zhuzhou Cyclic Economy Investment and Development Group Co., Ltd.* (株洲循環經濟投資發展集團有限公司) (formerly known as Zhuzhou Cyclic Economy Investment and Development Co., Ltd.* (株洲循環經濟投資發展有限責任公司), a State-owned enterprise established by the Committee of Zhuzhou Qingshuitang Cyclic Economy Industrial Zone* (株洲清水塘循環經濟工業區委員會) (“Zhuzhou Investment”) in the PRC (31 December 2014: RMB24.0 million). The Group has decided to suspend the capital injection to Hunan projects after taking into account the owner’s difficulty in obtaining funds in due course.
- (ii) The Group acquired the engineering, procurement and construction of part of the commercial buildings on the site at Yandu District of Yancheng* (鹽城市鹽都區), Jiangsu Province, the PRC, with an area of about 46,000 square metres in May 2012 (the “Commercial Buildings”) for its own use including relocating the Group’s central headquarters to the Commercial Buildings. As at the date of this announcement, the management is considering that part of the Commercial Buildings not used by the Group will be leased out to third party tenants for diversifying our business and enhancing and providing alternative source of revenue income of the Group in the future. The Group has arranged the cooperation between certain commercial buildings and the brand of “Juranzhijia” to launch the property leasing business.

(iii) The Group has invested US\$16 million in a joint venture company to conduct micro-financing business with current paid-in fund of US\$14.9 million. For further details, please refer to the Company's announcements dated 16 May 2015 and 18 September 2015 respectively.

As at 31 December 2015, the Group did not have any material contingent liability.

Employees and Remuneration Policy

As at 31 December 2015, the Group had a workforce of 620 (2014: 630). The decrease in number of employees was just ordinary staff turnover. The total staff cost for the reporting period was about RMB53.6 million (2014: RMB57.2 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 share option scheme (under which options to subscribe for Shares 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).

During the year under review, the Group did not experience any strikes, work stoppages or significant labour disputes which affected its operations in the past and it did not experience any significant difficulties in recruiting and retaining qualified staff.

Event After End of Reporting Period

As stated in the Company's announcement dated 9 March 2016, following the approval of Xiangyu PRC, the Jiangsu Xingyu sold all of its interests in Lugang to an independent third party for a total consideration of RMB85.8 million. The transaction was completed on 17 March 2016.

BUSINESS REVIEW

The Group recorded the operating revenue of about RMB701.0 million and gross profit of about RM226.7 million, representing a decrease of about 23.0% and 13.6% respectively compared with those in the previous year. Due to the impact of a total net loss of RMB283.4 million as a result of the allowance for doubtful debts of overdue receivables in the sum of RMB376.6 million and its relevant deferred tax credit of about RMB93.2 million, the Group's loss after tax for the financial year of 2015 amounted to RMB190,511,000, representing a decrease of about 275% compared with our net profit after tax for the financial year of 2014 of about RMB108,579,000 (or 14% if the net loss arisen from the above doubtful debt allowance was not taken into account).

The decrease in revenue was mainly due to the slow-down of implementation of dredging projects in the mainland and the decrease in the number of new construction projects taken up as a result of a more prudent and careful operating policy taken by the Group in the selection of new projects. In addition to the above, the decrease in profit after tax of the Group was also attributable to (i) an

aggregate net loss of about RMB283.4 million for the allowance for doubtful debts of overdue receivable (net of deferred tax effect); (ii) the foreign loss arisen from the exposure to foreign exchange fluctuations.

Although the revenue generated from the CRD Business segment decreased, the gross profit rate from the segment increased by 19.7% compared with that for the year ended 31 December 2014. Due to our prudent and careful operating policy, we gained boarder and deeper understanding of the background of the new constructions and conducted greater extent of due diligence, including the feasibility of the fund raising for the projects, the natural conditions of the construction projects and the construction status etc., to ensure reliable return on equity of new constructions and a more controllable level of gross profit.

In addition, as new projects in the EPD and water management segment were made and commenced new projects during the reporting period with limited volatility of construction in progress, the revenue during the reporting period maintained steady compared with the previous year. The commencement of new sizable EPD projects of the government in and after 2016 is expected to provide support for the segment and the Group in terms of revenue growth. Regarding the production of sludge de-watering equipment for the EPD works, our dredging capacity in relation to EPD works has increased up to about 6,000,000 cubic meters per annum in the reporting period. The Group has planned to increase its annual dredging capacity for EPD works to around 10,000,000 cubic meters by the end of 2016.

OUTLOOK

In 2015, the global economy showed a modest recovery but the growth rate has fallen short of expectations. The PRC economy experienced a number of difficulties and challenges, both expected and unexpected, placing more downside pressure on the economy. In 2016, from the global perspective, the global economy will remain in a deep consolidation phase after the financial crisis, and the weak economic condition will be hard to improve in the short term. From the domestic perspective, amid a complex and severe environment and under an increasing capital outflow pressure, the macro-economic controls and structural reforms will have greater difficulty in striking a balance between economic stability and risk avoidance. Mr. Li Keqiang, Premier of the State Council of the PRC, indicated an annual economic growth rate target at 6.5% to 7% in the government work report for the year, which raises the limit on acceptable level of economic growth rate and represents a new expectation of the PRC government on the volatility of economic growth rate.

With a profound reform adopted in the PRC, the enhancement of administrative efficiency and the acceleration in the progress of government projects can speed up the order acquisition and project introduction processes of the CRD business segment and the EPD and water management segment, directly conducive to the Group in terms of revenue growth.

In recent years, the hot topics relating to the environmental governance and the environmental issues continue to be the major concerns of the government, the mainstream media and the general public. The State Council proposed in the Government Work Report for 2016: to vigorously develop the energy conservation and environmental protection industry and to support and promote advanced technologies

and equipment for energy conservation and environmental protection; to implement the third party supervision of environmental pollution in an extensive way; and that every community member should take conscious actions to contribute to the creation of a beautiful China. In the coming years, it is expected that there will be a potential and huge demand in the EPD industry. Although we are unable to estimate the number of EPD projects to be assigned to our Group and the schedule and timetable of commencement of those EPD projects, we are confident about the potential growth of the EPD and water management business with our ongoing contribution to the sludge de-watering equipment and proven and advanced technologies together with our accumulated skills and experience in EPD works.

In addition, the Group is increasing its investment in research and development of environmental aspects and broadening the range of research areas to cover the technological development and research of integrated usage of relevant resources including soil management and heavy metal regulation. With the expansion of Maritime Silk Road under the “One Belt One Road” strategy and the official operation of Asian Infrastructure Investment Bank, the Group is expanding the business to foreign markets including Southeast market.

CORPORATE GOVERNANCE REPORT

The Group has applied the principles and adopted all code provisions, where applicable, of the code provisions as contained in “Corporate Governance Code and Corporate Governance Report” set out in Appendix 14 to the Listing Rules as the Group’s own code of corporate governance (“CG Code”). The Directors consider that the Company has complied with all applicable code provisions under the CG Code during the reporting period.

AUDIT COMMITTEE

The Company has established an audit committee of the Board (“Audit Committee”) with specific written terms of reference that have included the duties which are set out in CG Code provision C.3.3 with appropriate modification when necessary.

The major roles and functions of the Audit Committee include the review and supervision of the Group’s financial reporting system and internal control procedures, review of the Group’s financial information and review of the relationship with the auditor of the Group. Regular meetings would be held by the Audit Committee according to its term of reference.

As at 31 December 2015, the Audit Committee comprised three independent non-executive Directors namely, Mr. Chan Ming Sun, Jonathan (chairman), Mr. Xu Hengju and Mr. Huan Xuedong.

The financial statements of the Group for the year ended 31 December 2015 were audited by the Company’s auditor and reviewed by the Audit Committee.

DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2015 (2014: nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2015.

SCOPE OF WORK OF CWC CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, the consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2015 as set out in the preliminary announcement have been agreed by the Group's auditor, CWC CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by CWC CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by CWC CPA Limited on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the financial year ended 31 December 2015 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the Company's shareholders and published on the respective websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.cdep.com.hk) in due course.

By order of the Board
China Dredging Environment Protection Holdings Limited
Liu Kaijin
*Joint chairman, executive Director
and chief executive officer*

Hong Kong, 29 March 2016

As at the date of this announcement, the Board comprises Mr. Liu Kaijin, joint chairman, an executive Director and chief executive officer; Ms. Zhou Shuhua as an executive Director; Mr. Liu Longhua as a non-executive Director and joint chairman; and Mr. Huan Xuedong, Mr. Chan Ming Sun, Jonathan and Mr. Xu Hengju as independent non-executive Directors.

* *For identification purpose only*