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 2016

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 2016, together with the audited comparative figures for the year ended 31 December 2015 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 2016

	NOTES	2016 RMB'000	2015 RMB'000
Revenue	4	**667,154**	700,996
Operating cost		**(434,042)**	(474,318)
Gross profit		**233,112**	226,678
Other income	5	**24,854**	38,042
Other gains and losses, net		**(5,999)**	(396,572)
Marketing and promotion expenses		**(11,073)**	(8,633)
Administrative expenses		**(48,722)**	(41,261)
Finance costs		**(69,952)**	(55,587)
Profit (loss) before tax		**122,220**	(237,333)
Income tax (expense) credit	6	**(46,970)**	46,822
Profit (loss) and total comprehensive income (expense) for the year	7	**75,250**	(190,511)
Profit (loss) and total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**68,794**	(197,864)
Non-controlling interests		**6,456**	7,353
		75,250	(190,511)
Earnings (loss) per share	8		
— basic (RMB)		**0.055**	(0.19)
— diluted (RMB)		**0.055**	(0.19)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,639,358**	1,658,604
Prepaid land lease payments		**105,210**	100,773
Investment properties		**413,194**	—
Investment properties under construction		**—**	307,702
Goodwill		**201**	2,956
Available-for-sale investment		**—**	20,921
Deposit paid for acquisition of property, plant and equipment		**85,642**	79,377
Deferred tax assets		**103,323**	100,354
Other intangible assets		**4,750**	—
Accounts and other receivables due after one year	*10*	**89,887**	206,442
Pledged bank deposits		**—**	15,000
		2,441,565	2,492,129
CURRENT ASSETS			
Prepaid land lease payments		**3,075**	2,908
Accounts and other receivables and prepayments	*10*	**1,336,508**	1,180,985
Pledged bank deposits		**15,000**	47,572
Bank balances and cash		**34,500**	153,569
		1,389,083	1,385,034
CURRENT LIABILITIES			
Accounts and other payables	*11*	**485,146**	497,670
Amounts due to directors		**28,480**	19,098
Amounts due to non-controlling interests of a subsidiary		**2,476**	1,644
Tax payable		**130,548**	112,827
Bank borrowings	*12*	**485,215**	716,405
Other borrowings	*13*	**67,538**	495
Bonds payable		**246,381**	—
Convertible bonds		**—**	246,510
Derivative financial liabilities embedded in convertible bonds		**—**	7,030
		1,445,784	1,601,679
NET CURRENT LIABILITIES		**(56,701)**	(216,645)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,384,864**	2,275,484

	NOTES	2016 RMB'000	2015 RMB'000
CAPITAL AND RESERVES			
Share capital		**123,483**	102,045
Reserves		**1,985,883**	1,863,236
Equity attributable to owners of the Company		**2,109,366**	1,965,281
Non-controlling interests		**160,136**	158,136
TOTAL EQUITY		**2,269,502**	2,123,417
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests of a subsidiary		**67,611**	85,533
Deferred tax liabilities		**14,367**	16,046
Bank borrowings	*12*	**—**	18,195
Other borrowings	*13*	**33,384**	32,293
		115,362	152,067
		2,384,864	2,275,484

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

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 Company's immediate and ultimate holding company is Wangji Limited, a limited company incorporated in the British Virgin Islands, which is ultimately and wholly owned by Mr. Liu Kaijin ("Mr. Liu"), who is the Executive Director and Chairman 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 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

During the year ended 31 December 2016, the Group had not settled the convertible bonds (the "Bonds", see Note 14) 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. Subsequent to the end of the reporting period, on 21 March 2017, the Company and CITIC Capital China Access Fund Limited (the "Bondholder") entered into a second amendment agreement and supplemental deed to the deed poll dated 8 November 2013 in relation to the Bonds ("Second Amendment Agreement") to further amend the terms of the original convertible bond instrument and the original bond conditions (both as amended on 15 December 2016 by a standstill and amendment agreement and supplemental deed to the deed poll dated 8 November 2013 ("Amendment Agreement")) provided that the Company has fulfilled its undertakings under the Second Amendment Agreement.

Under the Second Amendment Agreement, the parties agreed to, among others, the following major amendments to the terms set out in the original convertible bond instrument and original bond conditions:

— the principal amount of the Bonds shall be further amended to HK$274,434,702 ("Second Reduced Redemption Amount");

— the maturity date of the Bonds shall be extended to 21 September 2017 (the "Extended Maturity Date");

— the Second Reduced Redemption Amount shall carry interest at the following rates:

  From 25 March 2017 and up to 21 June 2017 (both dates inclusive): 13%;

  From 22 June 2017 and up to 21 September 2017 (both dates inclusive): 18%;

— pay to the Bondholder, in cash and in immediately available funds, a sum of not less than HK$15,533,000 on or before 24 March 2017; and

— on or before 21 April 2017, the Company shall pay to the Bondholder, in cash and in immediately available funds, a sum of not less than HK$62,132,000.

Furthermore, as at 31 December 2016, the Group has net current liabilities of approximately RMB56.7 million.

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 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 31 December 2016, 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 31 December 2016 were secured by the Group's assets and highly probable that they can be renewed in the next twelve months;

(3) As at 31 December 2016, the Group has unutilised banking facilities of RMB133.1 million which will be available for use by the Group in the next twelve months; and

(4) The Group is actively negotiating with the banks to seek for renewal of the outstanding bank borrowings. Subsequent to reporting date, the Group has successfully obtained written confirmation from a new bank, which confirmed to provide banking facilities up to RMB350 million in the next two years.

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 consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND AMENDMENTS TO 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 HKFRS 11	Accounting for acquisitions of interest in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 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 of the Company who are also the chief operating decision makers ("CODM") 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) Other Marine Business mainly comprises 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 and the construction of hotel by the Group.

The Group started to construct a shopping mall in Yancheng, the PRC in 2015 with an aim to generate rental income and the construction was completed during the year ended 31 December 2016. The Group started to build a hotel during the year ended 31 December 2016. The CODM reviewed the financial performance of the shopping mall and the hotel as a separate segment and accordingly, reported as a separate reportable segment.

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*	**Property Management Business** *RMB'000*	**Total** *RMB'000*
For the year ended 31 December 2016					
Segment revenue	353,961	154,702	153,451	5,040	667,154
Segment results	140,569	43,785	17,680	(475)	201,559
Unallocated other income					19,347
Other gains and losses, net					(5,999)
Unallocated corporate expenses					(31,465)
Unallocated Finance costs					(61,222)
Profit before tax					122,220

	Capital and Reclamation Dredging Business *RMB'000*	Environmental Protection Dredging and Water Management Business *RMB'000*	Other Marine Business *RMB'000*	Property Management Business *RMB'000*	Total *RMB'000*
For the year ended 31 December 2015					
Segment revenue	367,319	179,460	154,217	—	700,996
Segment results	131,782	53,730	22,148	—	207,660
Unallocated other income					37,316
Other gains and losses, net					(396,572)
Unallocated corporate expenses					(33,768)
Unallocated Finance costs					(51,969)
Loss before tax					(237,333)

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

Segment results represent profit earned or loss incurred 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

	2016	2015
	RMB'000	*RMB'000*
Government financial incentive *(note)*	**9,239**	9,224
Bank interest income	**547**	6,376
Interest income in respect of non-current accounts receivable	**11,879**	14,781
Interest income in respect of consideration receivable	**—**	3,928
Interest income in respect of other receivable	**2,903**	3,052
Sundry income	**286**	681
	24,854	38,042

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 2016 was RMB9,239,000 (2015: RMB9,224,000). Accordingly, the Group recognised such amount as other income for the year.

6. INCOME TAX EXPENSE (CREDIT)

	2016	2015
	RMB'000	*RMB'000*
The charge (credit) comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	**51,618**	48,133
Deferred taxation	**(4,648)**	(94,955)
	46,970	(46,822)

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

	2016	2015
	RMB'000	*RMB'000*
Profit (loss) before tax	**122,220**	(237,333)
Tax at the PRC EIT rate of 25% (2015: 25%)	**30,555**	(59,333)
Tax effect of expenses not deductible for tax purpose	**11,867**	5,628
Tax effect of tax losses not recognised	**4,548**	8,249
Utilisation of tax losses previously not recognised	**—**	(1,366)
Tax charge (credit) for the year	**46,970**	(46,822)

(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. PROFIT (LOSS) FOR THE YEAR

	2016	2015
	RMB'000	*RMB'000*
Profit (loss) for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**1,932**	1,735
Amortisation of intangible assets	**250**	—
Amortisation of prepaid land lease payments	**2,806**	2,671
Depreciation of property, plant and equipment	**99,982**	100,374
Directors' emoluments	**2,100**	2,100
Other staff costs	**48,557**	47,932
Retirement benefit scheme contributions, excluding those of directors	**3,481**	3,521
Total staff costs	**54,138**	53,553
Allowance for doubtful debts	**11,877**	376,641
Gain on disposal of property, plant and equipment	**—**	(87)
Sub-contracting charges included in operating cost	**162,357**	184,174

8. EARNINGS (LOSS) PER SHARE

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

	2016	2015
	RMB'000	*RMB'000*
Earnings		
Profit (loss) for the year attributable to owners of the Company for the purposes of basic and diluted earnings/loss per share	**68,794**	(197,864)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/loss per share	1,252,900	1,036,947

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

The computation of diluted earnings per share for the year ended 31 December 2015 does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease in loss per share. As disclosed in note 14, the conversion options embedded in the convertible bonds are no longer exercisable after the Original Maturity Date. As at 31 December 2016, the Group does not have any potential ordinary shares.

9. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2016 and 31 December 2015, nor has any dividend been proposed since the end of the reporting period.

10. ACCOUNTS AND OTHER RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Non-current:		
Accounts receivable, net of allowance for doubtful debts	**88,090**	184,933
Value-added tax recoverable	**1,797**	1,705
Shareholder's loan to Yongheng	**—**	14,804
Others	**—**	5,000
	89,887	206,442
Current:		
Accounts receivable, net of allowance for doubtful debts	**1,272,936**	936,591
Bills receivable	**4,312**	11,845
Government financial incentive receivables	**10,407**	21,168
Deposits and prepayments	**40,643**	31,828
Value-added tax recoverable	**—**	5,190
Consideration and accumulated interest receivable from Hongji Construction	**—**	70,774
Loan receivables	**—**	95,000
Others	**8,210**	8,589
	1,336,508	1,180,985
	1,426,395	1,387,427

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

	2016	2015
	RMB'000	*RMB'000*
0–30 days	**117,338**	139,071
31–60 days	**66,517**	39,044
61–90 days	**69,072**	43,225
91–180 days	**101,847**	117,006
181–365 days	**212,753**	385,008
1 year–2 years	**433,730**	259,986
Over 2 years	**359,769**	138,184
	1,361,026	1,121,524

11. ACCOUNTS AND OTHER PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Accounts payables		
Sub-contracting charge	**132,044**	178,635
Fuel cost	**36,080**	34,071
Repair and maintenance	**15,270**	12,100
Others	**5,703**	4,970
	189,097	229,776
Bills payable	**—**	7,572
Other payables		
Payable for property, plant and equipment	**11,880**	24,659
Payable for construction cost of investment properties under construction/investment properties	**115,853**	69,863
Accrual other taxes	**111,630**	100,192
Accrual staff salaries and welfare	**26,576**	22,405
Receipts in advance	**9,036**	5,550
Interest on the Bonds	**4,334**	3,043
Others	**16,740**	34,610
	296,049	260,322
	485,146	497,670

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:

	2016	2015
	RMB'000	*RMB'000*
0–30 days	**45,771**	56,848
31–60 days	**12,784**	5,786
61–90 days	**10,324**	13,381
91–180 days	**22,194**	15,809
Over 180 days	**98,024**	137,952
	189,097	229,776

12. BANK BORROWINGS

	2016	2015
	RMB'000	*RMB'000*
Secured bank borrowings		
Payment schedule according to contractual repayment terms		
Repayable within one year	**485,215**	708,707
Repayable in more than one year but not exceeding two years	**—**	18,195
	485,215	726,902
Unsecured bank borrowing that contains a repayable on demand clause	**—**	7,698
	485,215	734,600
Less: amount due for settlement within one year or contains a repayable on demand clause	**(485,215)**	(716,405)
	—	18,195

13. OTHER BORROWINGS

	2016	2015
	RMB'000	*RMB'000*
Unsecured other borrowings		
Without fixed repayment term and classified as current liabilities	**67,538**	495
Classified as non-current liabilities	**33,384**	32,293
	100,922	32,788

14. BONDS PAYABLE/CONVERTIBLE BONDS/DERIVATIVE FINANCIAL LIABILITIES EMBEDDED IN CONVERTIBLE BONDS

The Company issued unsecured convertible bonds (the "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 with maturity date on 7 November 2016 (the "Original Maturity Date"). 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, which amounts to approximately HK$325,115,000 (equivalent to approximately RMB290,818,000) (the "Original Redemption Amount"), 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 HK$, which is a currency other than the Company's functional currency. Therefore, the conversion option in the convertible bonds does not recent in an exchange of a fixed number of the Company's own equity instrument for a fixed amount of cash. 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 Group had not settled 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 Group and CITIC entered into a series of agreements that CITIC agreed to a) extend the maturity from the Original Maturity Date to 14 March 2017 and b) waive a sum of US$2 million (equivalent to approximately RMB13,781,000) by reducing the aggregated amounts of Original Redemption Amount and interests payables to approximately HK$275,415,000 (equivalent to approximately RMB246,381,000) (the "Reduced Redemption Amount"), subject to the Group's payment of US$5 million (equivalent to approximately HK$34.5 million) to CITIC on or before 18 November 2016. Details of agreements are set out in the announcement of the Company on 7 November 2016, 15 November 2016, 16 November 2016 and 16 December 2016.

Under the agreements, interest rates on the Reduced Redemption Amount 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 the actual repayment date of the Reduced Redemption Amount (together with all default interest) *(note)*	18%

Note: Such default 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 and compounded on a monthly basis.

Under the agreements, the Bonds are supported by personal guarantees of Mr. Liu and Ms. Zhou, and a dredger owned by the Group with carrying amount of approximately RMB253,985,000 as at 31 December 2016.

Furthermore, the conversion option under the Bonds was removed under the agreements (i.e. no longer exercisable anymore).

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

	Debt component	**Derivative component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Convertible bonds, at 1 January 2015	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	13,581	528	14,109
Convertible bonds, at 31 December 2015	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	(13,781)	—	(13,781)
Settlement	(34,453)	—	(34,453)
Exchange realignment	16,704	—	16,704
Reduced Redemption Amount	246,381	—	246,381
Accrued interests based on the agreements	4,334	—	4,334
Bonds payable, at 31 December 2016	250,715	—	250,715

The Bonds at the end of the reporting periods are represented by:

	2016	2015
	RMB'000	*RMB'000*
Interest payable within one year included in other payables	**4,334**	3,043
Bonds payable	**246,381**	—
Convertible bonds	**—**	246,510
	250,715	249,553

15. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the year, the Group paid rentals of RMB96,000 (2015: 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 2016 and 2015. As at 31 December 2016, the amount due to Mr. Liu was RMB26,499,000 (2015: RMB17,806,000).

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

As at 31 December 2016 and 31 December 2015, 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 (2015: RMB98 million) was supported by a property owned by a company in which Mr. Liu has beneficial interest.

16. EVENT AFTER THE REPORTING PERIOD

Extension of maturity of the Bonds

On 21 March 2017, CITIC and the Group entered into the Second Amendment Agreement to further amend the terms of the Bonds. Under the Second Amendment Agreement, subject to further undertakings as set out in the announcement of the Company on 22 March 2017, the principal amount of the Bonds shall be amended to HK$274,434,702 and the maturity date of the Bonds shall be extended to 21 September 2017 with interest rates amended as follows:

Period	Interest rate per annum
From 25 March 2017 and up to 21 June 2017	13%
From 22 June 2017 and up to 21 September 2017	18%

MANAGEMENT DISCUSSION AND ANALYSIS

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 (the "CRD Business"); (ii) environmental protection dredging ("EPD") and water management business (the "EPD and Water Management Business"); and (iii) other works operated in marine sites such as salvage and hoisting works (the "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*) during the reporting period.

During the reporting period, the Group turned around from an net loss of approximately RMB190.5 million in the financial year of 2015 to a net profit of approximately RMB75.3 million.

FINANCIAL REVIEW

Revenue

During the reporting period, the Group recorded a drop by about 4.8% in total revenue from RMB701.0 million for the year ended 31 December 2015 to about RMB667.2 million. As regards the CRD Business segment, the revenue generated during the reporting period was approximately RMB354.0 million, which represented a decrease of approximately 3.6% compared to the revenue for the year ended 31 December 2015. 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 since 2015. The EPD and Water Management Business segment recorded revenue of RMB154.7 million, which represented a decrease of approximately 13.8% from the corresponding segment's revenue for the year ended 31 December 2015. The decrease was due to the slow progress in implementing certain EPD projects. Other Marine Business maintained stable and contributed a revenue of approximately RMB153.5 million to the Group for the reporting period, which represented a slight decrease of 0.5% as compared with approximately RMB154.2 million in the corresponding period of 2015.

The revenue of the newly developed Property Management Business segment for the reporting period was approximately RMB5.0 million. The growth of this business segment is subject to the duration of the marketing and promotion efforts, the cultivation process of customer base as well as the ultimate customers' recognition of the brand and shopping mall.

Operating Cost and Gross Profit

The Group's operating cost decreased from about RMB474.3 million for the year ended 31 December 2015 to about RMB434.0 million for the reporting period, representing a decrease of about 8.5%. Such decrease was mainly attributable to the decrease in business volume, drop in oil price and tighten cost controls.

The Group recorded a gross profit of about RMB233.1 million for the reporting period, representing an increase of about 2.8% as compared with the year ended 31 December 2015 of about RMB226.7 million, and the Group's gross profit margin slightly increased from 32.3% for the year ended 31 December 2015 to 34.9% for the reporting period. Such increase in gross profit was due to the effective cost control during the reporting period.

The gross profit margin of CRD Business segment increased from about 35.9% for the year ended 31 December 2015 to about 39.7% for the reporting period, representing an increase of 3.8 percentage points. Such increase was mainly due to the Group adopting more stringent thresholds for vetting and selection of the new projects during the reporting period.

The gross profit margin of EPD and Water Management Business slightly decreased from about 29.9% for the year ended 31 December 2015 to about 28.3% for the reporting period.

During the reporting period, the gross profit margin of the Group's Other Marine Business decreased from 14.4% for the year ended 31 December 2015 to about 11.5% for the reporting period. The drop in the profit margin was due to more intensive business competition and the rising staff costs which further lowered the project prices.

Other Income

Other income decreased by approximately 34.7% to approximately RMB24.9 million as compared with the year ended 31 December 2015, mainly due to the decrease in interest income in respect of bank accounts and consideration receivables.

Allowance for Doubtful Debts

As a further prudent measure in managing the account receivables, an allowance for doubtful debts of aggregate sum of about RMB11.9 million was made based on the recoverability of the receivables for the reporting period (allowance for doubtful debts in 2015 was approximately RMB376.6 million in total). The allowance for receivables was made based on the assessment in recoverability and the judgment 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 for the reporting period was approximately RMB11.1 million, representing an increase of 28.3% as compared with the year ended 31 December 2015 of approximately RMB8.6 million, which was mainly attributable to the launch of series of marketing and promotion activities for the formal operation of 居然之家鹽城店 (Easyhome Yancheng Shopping Mall*) during the reporting period.

Administrative Expenses

Administrative expenses for the reporting period amounted to about RMB48.7 million, representing an increase of about 18.1% from RMB41.3 million for the year ended 31 December 2015. This was mainly due to the increase in new staff salary cost and utilities cost as a result of the operation of 居然之家鹽城店 (Easyhome Yancheng Shopping Mall*), and the increase in professional fees.

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 RMB39.2 million was recognised in the reporting period (31 December 2015: loss of approximately RMB30.2 million).

Finance Costs

Finance costs increased by approximately 25.8% from the year ended 31 December 2015 of approximately RMB55.6 million to approximately RMB70.0 million for the reporting period.

Income Tax Expense

Income tax expense for the reporting period amounted to about RMB47.0 million, while the income tax credit amounted to about RMB46.8 million for the year ended 31 December 2015.

Profit for the Period

As a combination effect of the above, the net profit for the reporting period was about RMB75.3 million, while the loss was RMB190.5 million for the year ended 31 December 2015. Such gain was mainly attributable to the significant decrease in allowance for doubtful debts compared with 2015 and the gain from disposal of Jiangsu Lugang (as defined below) of about RMB24.3 million for the reporting period.

Earnings Per Share

Basic earnings per Share for the reporting period was RMB0.055 per Share, while the loss per Share for the year ended 31 December 2015 was RMB0.19 per Share.

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 loss recognised during the reporting period was approximately RMB39.2 million (31 December 2015: loss of approximately RMB30.2 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.

Financial Position

As at 31 December 2016, the total equity of the Group amounted to approximately RMB2,269.5 million (31 December 2015: approximately RMB2,123.4 million). The increase was mainly attributable to the increase of capital due to new shares issued during the reporting period and the income from operation for the year.

The Group's net current liabilities as at 31 December 2016 amounted to approximately RMB56.7 million (31 December 2015: approximately RMB216.6 million). The current ratio, which is calculated by dividing current assets by current liabilities, was 0.96 as at 31 December 2016 (31 December 2015: 0.86).

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 liabilities were cash and various bank deposits which was about RMB49.5 million in total as at 31 December 2016, representing an decrease by about 75.4% as compared with that of about RMB201.1 million as at 31 December 2015.

Pursuant to the issuance of new shares during the reporting period, the Company issued the consideration shares in an amount of approximately HK$86.1 million (equivalent to approximately RMB75 million) as the consideration for acquisition of land use rights with properties and machines.

The Group's accounts receivables as at 31 December 2016 amounted to approximately RMB1,361.0 million (2015: approximately RMB1,121.5 million).

The overdue receivables as at 31 December 2016 increased by about 31.3% to approximately RMB1,024.1 million (2015: approximately RMB780.2 million).

As as 31 December 2016, the total liabilities of the Group amounted to approximately RMB1,561.1 million (31 December 2015: RMB1,753.7 million). The decrease in total liabilities was mainly due to the decrease of bank borrowings and accounts and other payables. The Group's gearing ratio (calculated by interest bearing instruments (including bank borrowings, other borrowings and convertible bonds) divided by total equity) decreased to a level of 36.2% (2015: 47.7%).

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, convertible 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 recorded a net exchange loss amounting to RMB39.2 million during the Period.

Charge over Assets of the Group

As at 31 December 2016, the Group's bank borrowings were secured by pledged bank deposits of approximately RMB15.0 million, charges over certain dredgers, accounts receivables and land owned by the Group, a property owned by a company which Mr. Liu Kaijin ("Mr. Liu") has beneficial interest, and personal guarantees by Mr. Liu and Ms. Zhou Shuhua. 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.*).

Material acquisitions and disposals

On 9 March 2016, Jiangsu Xingyu entered into a share transfer agreement with Ms. Xu Xiulan and Ms. Chou Zhaoxiu (collectively called the "Purchasers") pursuant to which Jiangsu Xingyu agreed to sell the entire equity interest of 江蘇省路港建設工程有限公司 (Jiangsu Province Lugang Construction Project Co. Limited*) ("Jiangsu Lugang"), an indirect wholly-owned subsidiary of the Company, to the Purchasers, among which 98.89% equity interest should be acquired by Ms. Xu Xiulan and the remaining 1.11% equity interest should be acquired by Ms. Chou Zhaoxiu. The total consideration is RMB85.8 million. Jiangsu Lugang is principally engaged in port and waterway construction and reclamation dredging business. The transaction was completed on 17 March 2016.

Pursuant to the above share transfer agreement, the Purchasers shall undertake that after completion of the share transfer, the Purchasers shall continue to cooperate with Jiangsu Xingyu on its business to ensure that the operation of investment projects of Jiangsu Xingyu which tenders have been awarded will not be affected by the sale of Jiangsu Lugang.

Capital Commitments and Contingent Liabilities

As at 31 December 2016, the Group had capital commitments of approximately RMB125.9 million (31 December 2015: approximately RMB107.5 million) which mainly included the construction cost of approximately RMB118.8 million for a hotel.

As at 31 December 2016, the Group did not have any material contingent liability (31 December 2015: nil).

BUSINESS REVIEW

The Group recorded an operating revenue of about RMB667.2 million and gross profit of about RMB233.1 million, representing a decrease of 4.8% and an increase of 2.8% respectively for the corresponding period last year. The decrease in operating revenue was mainly due to the slowdown of the construction projects in domestic dredging industry and the drop in number of newly contracted construction projects as the Group adopted a more prudent strategy in selecting new projects as disclosed in the annual report 2015. The increase in gross profit was due to the fact that the Group adopted positive cost effectiveness for dredging projects.

The CRD Business is a core business of the Group. The Group has undertook and commenced new projects during the reporting period, including the projects in Binhai, Jiangsu and Tangshan, Hebei. Though revenue generated from the segment decreased during the reporting period, gross profit margin from it remained increasing, which was attributable to our healthy and prudent operating strategy, reflected by a better understanding of the background and a more detailed and thorough due diligence review of newly contracted constructions, including but not limited to the feasibility of fund raising, natural conditions and construction status of the projects, to ensure a reliable capital return and a more controllable level of gross profit of such new projects.

The Group proactively develops and expands the EPD and Water Management Business segment. The Group recorded a decrease in revenue during the reporting period, which was attributable to the slow progress in implementing certain EPD projects. Due to the sludge dewatering equipment produced by the Group for the sole use of EPD works, our dredging capacity increased by approximately 2 million cubic meters from 6 million cubic meters per annum in 2015 to 8 million cubic meters per annum during the reporting period.

Other Marine Business includes marine hoisting, installation, salvaging, vessel chartering and other engineering services. The service prices of the segment fell due to the fact of intensified market competition among hoisting and salvaging business.

The Group completed the construction of a 8-floor shopping mall located in the core area of Yancheng National High-tech Industrial Development Zone, Yandu District, Yancheng. The land where the shopping mall constructed was acquired by the Group in May 2012 with a gross floor area of 75,600 square meters, mainly used for leasing under the Property Management Business. The shopping mall was officially named 居然之家鹽城店 (Easyhome Yancheng Shopping Mall*) and commenced operation on 26 March 2016, positioning as a large scale home building material-themed shopping center offering onestop services from furniture, housewares to decoration materials to customers. Leveraging on the brand of "Easyhome" and its mode of operation, the Group wishes to improve its competitiveness to boost the occupancy rate of the shopping mall and pursue higher profitability.

In addition to the operation and lease of shopping malls, the Group also commenced the construction of a 17-floor hotel with 200 guest rooms located at the west of Caihong Road, Yancheng City, Jiangsu, with a gross floor area of 20,000 square meters, which was preliminarily expected to be completed by the end of 2018. The Group expects to provide ongoing and diversified source of revenue for the Group and stable cash flows to the further expansion of the EPD business in the future through the development of new business.

EVENT AFTER END OF REPORTING PERIOD

On 21 March 2017, the Company entered into the Second Amendment Agreement with the Bondholder in relation to, among other matters, the extension of the maturity date of the Bonds to 21 September 2017.

Under the Second Amendment Agreement, the Company shall repay to the Bondholder a sum of not less than HK$15,533,000, HK$62,132,000 and HK$229,467,798 on or before 24 March 2017, 21 April 2017 and 21 September 2017 respectively to fully redeem the outstanding Bonds. The repayments comprise interests accrued on and also part repayment of the outstanding principal amount of the bonds. For more details, please refer to the Company's announcement dated 22 March 2017.

EMPLOYEES AND REMUNERATION POLICY

The sustained development of our business is owing to the ongoing contributions of our employees. The Board regards employees as the Group's most valuable wealth and is committed to improving their growth environment, providing them competitive remuneration packages and safeguarding their health and safety. As at 31 December 2016, the Group has 645 (2015: 620) employees. The total staff cost for the reporting period was about RMB54.1 million (2015: RMB53.6 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.

OUTLOOK

Looking into the year of 2017, the Group will carry on its efforts to enhance the effectiveness of its dredging business, and expects to bring reasonable returns through obtaining more work contracts by virtue of our rich construction experience on dredging projects. In addition, the Group will continue to increase its investment in technological research and development of environmental aspects to cover the technological development and research of integrated usage of relevant resources including soil management and heavy metal regulation. With the support under the "One Belt One Road" strategy, the Group is expanding the business to foreign markets including Southeast market.

In terms of capital operation, the Group will actively identify and materialise healthy and feasible financial plans based on the progress of its construction projects, so as to further optimise the financial position and enhance the capital base of the Group.

CORPORATE GOVERNANCE CODE

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 (the "CG Code"). The Directors consider that the Company has complied with all applicable code provisions under the CG Code during the reporting period except for the deviation mentioned below.

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Before 23 September 2016, Mr. Liu Kaijin, former joint chairman and chief executive officer of the Company, was responsible for the day-to-day management of the Group's businesses whilst Mr. Liu Longhua, former joint chairman, was responsible for the management of the Board. On 23 September 2016, Mr. Liu Kaijin was re-designated from joint chairman to the chairman and Mr. Liu Longhua was re-designated from joint chairman to vice chairman of the Company, so Mr. Liu Kaijin have the dual roles of both chairman and chief executive officer of the Company and the Company has then deviated from this code provision A.2.1. The Board believed that the balance of power and authority for the arrangement would not be impaired and this structure would enable the Company to make and implement decisions promptly and effectively.

The Company understands the importance of complying with code provision A.2.1 of the CG Code. On 5 January 2017, Mr. Liu Kaijin resigned as the chief executive officer of the Company and Mr. Wu Xuze was appointed the same position. Hence, the Company has re-complied with the code provision from that date onwards.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding the Directors' dealings in the Company's securities.

Having made specific enquiry to the Directors, all Directors had confirmed that they had complied with the required standard set out in the Model Code for the year ended 31 December 2016.

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 2016, the Audit Committee comprised three independent non-executive Directors namely, Mr. Chan Ming Sun, Jonathan (chairman), Mr. Huan Xuedong and Mr. Liang Zequan.

The financial statements of the Group for the year ended 31 December 2016 were audited by the Company's auditor and reviewed by the Audit Committee.

FINAL DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2016 (2015: 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 2016.

SCOPE OF WORK OF AUDITOR

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 2016 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 this preliminary results announcement.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the financial year ended 31 December 2016 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.hkexnews.hk) and the Company (www.cdep.com.hk) in due course.

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

Hong Kong, 29 March 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; Ms. Zhou Shuhua as Executive Director; Mr. Liu Longhua as Vice Chairman and Non-executive Director; and Mr. Huan Xuedong, Mr. Chan Ming Sun Jonathan and Mr. Liang Zequan as Independent Non-executive Directors.

* *For identification purpose only*