China Dredging Environment Protection Holdings Limited

中國疏浚環保控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 871)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Director(s)**") of China Dredging Environment Protection Holdings Limited (the "**Company**") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2014 (the "**Reporting Period**"), together with the unaudited comparative figures for the six months ended 30 June 2013 as follows, which are prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") and are presented in Renminbi ("**RMB**"):

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**450,717**	505,255
Operating costs		**(305,411)**	(312,058)
Gross profit		**145,306**	193,197
Other income		**25,712**	12,456
Fair value changes of derivative financial liabilities embedded in convertible bonds		**(1,129)**	—
Fair value changes of derivative financial liabilities — warrants		**(12,314)**	—
Marketing and promotion expenses		**(6,326)**	(6,945)
Administrative expenses		**(22,885)**	(24,093)
Finance costs		**(28,226)**	(16,873)

		Six months ended 30 June	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Profit before tax		**100,138**	157,742
Income tax expense	*5*	**(37,085)**	(42,698)
Profit and total comprehensive income for the period	*6*	**63,053**	115,044
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**54,742**	106,925
Non-controlling interests		**8,311**	8,119
		63,053	115,044
Earnings per share	*7*		
— basic *(RMB)*		**0.07**	0.13
— diluted *(RMB)*		**0.06**	0.13

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,677,585**	1,693,267
Prepaid land lease payments		**96,181**	90,599
Goodwill		**2,956**	2,956
Intangible assets		**1,920**	2,560
Available-for-sale investment		**20,921**	17,147
Deposit paid for acquisition of property, plant and equipment		**696**	551
Accounts and other receivables due after one year	*9*	**244,211**	219,470
		2,044,470	2,026,550
CURRENT ASSETS			
Prepaid land lease payments		**2,554**	2,410
Accounts and other receivables	*9*	**1,150,073**	1,016,708
Pledged bank deposits		**72,843**	53,521
Bank balances and cash		**202,807**	312,183
		1,428,277	1,384,822
CURRENT LIABILITIES			
Accounts and other payables	*10*	**427,181**	524,638
Amounts due to directors		**3,399**	1,792
Amounts due to non-controlling interests of a subsidiary		**952**	4,952
Tax payable		**144,006**	109,931
Bank borrowings	*11*	**575,873**	631,349
Other borrowings		**856**	6,244
		1,152,267	1,278,906
NET CURRENT ASSETS		**276,010**	105,916
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,320,480**	2,132,466

	Notes	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital		**71,592**	67,200
Reserves		**1,674,758**	1,528,223
Equity attributable to owners of the Company		**1,746,350**	1,595,423
Non-controlling interests		**143,039**	134,728
TOTAL EQUITY		**1,889,389**	1,730,151
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests of a subsidiary		**89,663**	90,708
Deferred tax liabilities		**19,161**	20,063
Bank borrowings	*11*	**50,451**	60,717
Other borrowings		**35,814**	21,003
Convertible bonds		**184,554**	172,056
Derivative financial liabilities embedded in convertible bonds		**38,897**	37,768
Derivative financial liabilities — warrants		**12,551**	—
		431,091	402,315
		2,320,480	2,132,466

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. BASIS OF PREPARATION

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

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

2. GOING CONCERN BASIS OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2014, the Group has bank borrowings of approximately RMB575.9 million and other liabilities of approximately RMB576.4 million payable within one year from the end of the Reporting Period. While the Group has only bank and cash balances of RMB202.8 million at 30 June 2014, the Group's ability to repay its debts when they fall due relies heavily on the accounts receivables being settled within the management's expectation.

In view of the above, the Directors have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the Reporting Period; (ii) all the bank borrowings as at 30 June 2014 were secured by the Group's assets and are therefore highly probable that they can be renewed in the next twelve months; and (iii) the Group's unutilised banking facilities of RMB140.8 million as at 30 June 2014 which will be available in the next twelve months.

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

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for the derivative financial liabilities that are measured at fair values at the end of each reporting period.

Except as described below, which are applicable upon new transactions that occurred in the current interim period, the accounting policies and methods of computation used in the condensed consolidated financial statements for the Reporting Period are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2013.

Derivative financial liabilities — Warrants

Warrants issued by the Company that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instrument are accounted for as derivatives.

The warrants are initially recognised at fair value and are subsequently remeasured to their fair value at the end of the Reporting Period with changes in fair value recognised in profit or loss.

The application of the new and revised HKFRSs that are mandatorily effective for the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

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. No operating segments identified by the chief operating decision makers have been aggregated in arriving at the reportable segments of the Group.

Details of the Group's four reportable segments during both periods 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 works 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	Environmental Protection Dredging and Water Management Business	Dredging Related Construction Business	Other Marine Business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Six months ended 30 June 2014					
Segment revenue	**203,065**	**129,310**	**33,194**	**85,148**	**450,717**
Segment results	**71,750**	**37,593**	**3,027**	**24,614**	**136,984**
Other income					**25,465**
Fair value changes of derivative financial liabilities					**(13,443)**
Unallocated corporate expenses					**(22,052)**
Finance costs					**(26,816)**
Group's profit before tax					**100,138**
Six months ended 30 June 2013					
Segment revenue	230,280	175,252	23,124	76,599	505,255
Segment results	98,011	54,183	7,086	23,199	182,479
Other income					12,302
Unallocated corporate expenses					(22,255)
Finance costs					(14,784)
Group's profit before tax					157,742

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

Segment results represent profit earned by each segment, without allocation of central administrative expenses, fair value changes of derivative financial liabilities, certain other income and certain finance costs. This is the measure reported to the executive directors for the purposes of resource allocation and performance assessment.

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	**37,987**	43,640
Deferred taxation	**(902)**	(942)
	37,085	42,698

notes:

(i) PRC EIT

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

(ii) Hong Kong Profits Tax

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

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

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**48,392**	39,276
Net foreign exchange loss (gain)	**358**	(82)
Share-based payment expense	**—**	2,049
Sub-contracting charges included in operating costs	**147,711**	160,915

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**54,742**	106,925
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**832,789**	800,000
Effect of dilutive potential ordinary shares:		
Options	**11,683**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**844,472**	800,000

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

The computation of diluted earnings per share for the Reporting Period does not assume the conversion of the Company's outstanding convertible bonds, which were issued in the second half of financial year 2013, since their exercise would result in an increase in earnings per share.

The computation of diluted earnings per share for the Reporting Period does not assume the exercise of the outstanding warrants, which were issued during the Reporting Period, since their exercise would have an insignificant impact on earnings per share.

8. DIVIDENDS

No dividends were paid, declared or proposed during both periods. The Directors have determined that no dividend will be paid in respect of the Reporting Period (six months ended 30 June 2013: Nil).

9. ACCOUNTS AND OTHER RECEIVABLES

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Non-current:		
Accounts receivables	**141,482**	117,971
Value-added tax recoverable	**9,768**	9,953
Shareholder's loan to Yongheng	**14,804**	18,578
Consideration receivable	**78,157**	72,968
	244,211	219,470
Current:		
Accounts receivables	**1,029,808**	862,888
Bills receivable	**7,150**	4,150
Government financial incentive receivables	**17,504**	16,041
Deposits and prepayments	**32,889**	22,307
Value-added tax recoverable	**5,036**	5,450
Consideration receivable	**50,000**	100,000
Others	**7,686**	5,872
	1,150,073	1,016,708
	1,394,284	1,236,178

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, including those that are billed and unbilled, (net of allowance on accounts receivable) at the end of each Reporting Period is as follows:

Aged analysis of the Group's accounts receivables

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
0–30 days	**241,836**	193,977
31–60 days	**44,070**	60,129
61–90 days	**55,555**	63,472
91–180 days	**189,693**	221,265
Over 180 days	**640,136**	442,016
	1,171,290	980,859

Included in the accounts receivables balance is retention money of approximately RMB130,000,000 (31 December 2013: RMB95,000,000) as at 30 June 2014.

The aged analysis of the Group's bills receivable at the end of each Reporting Period is as follows:

Aged analysis of the Group's bills receivable

	At 30 June 2014	At 31 December 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0–30 days	**600**	400
31–60 days	**2,000**	750
61–90 days	**200**	3,000
91–180 days	**4,350**	—
	7,150	4,150

10. ACCOUNTS AND OTHER PAYABLES

	At 30 June 2014	At 31 December 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Accounts payables		
Subcontracting charge	**180,053**	162,505
Fuel cost	**12,327**	31,227
Repair and maintenance	**10,709**	14,338
Others	**691**	1,350
	203,780	209,420
Bills payable	**97,843**	38,501
Other payables		
Payable for property, plant and equipment	**16,629**	170,540
Accrued other taxes	**75,600**	66,502
Accrued staff salaries and welfare	**15,256**	15,389
Receipts in advance	**6,418**	6,431
Interest on convertible bonds due within one year	**5,759**	5,759
Others	**5,896**	12,096
	125,558	276,717
	427,181	524,638

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

	At 30 June 2014 *RMB'000* **(Unaudited)**	At 31 December 2013 *RMB'000* (Audited)
0–30 days	**117,870**	122,391
31–60 days	**5,632**	10,190
61–90 days	**3,438**	16,213
91–180 days	**6,776**	11,082
Over 180 days	**70,064**	49,544
	203,780	209,420

11. BANK BORROWINGS

During the Reporting Period, the Group raised bank loans of RMB329,900,000 (six months ended 30 June 2013: RMB412,038,000) and repaid bank loans of RMB395,642,000 (six months ended 30 June 2013: RMB284,000,000). As at 30 June 2014, the effective interest rates of the bank borrowings ranged from 3.79% to 7.8% (31 December 2013: 3.62% to 7.80%) per annum.

12. RELATED PARTY DISCLOSURES

(I) Related party transactions

During the Reporting Period, the Group paid rentals of RMB46,000 (six months ended 30 June 2013: RMB46,000) 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 six months ended 30 June 2014 and 2013. As at 30 June 2014, the amount due to Mr. Liu was RMB1,474,000 (31 December 2013: RMB157,000).

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

As at 30 June 2014 and 31 December 2013, 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.

In addition, as at 30 June 2014, the Group's bank borrowings to the extent of HK$121,199,000 (equivalent to RMB95,623,000) (31 December 2013: HK$267,251,000 (equivalent to RMB210,670,000)) were supported by a guarantee provided by China Merchant Bank Nanjing branch, which was in turn secured by one (31 December

2013: two) parcel(s) of land owned by Yongheng. Another bank borrowing of the Group of RMB20,000,000 (31 December 2013: RMB20,000,000) was supported by a property owned by a company in which Mr. Liu has beneficial interest.

(III) Compensation of key management personnel

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short-term benefits	**1,819**	3,170
Post-employment benefits	**7**	7
	1,826	3,177

INTERIM DIVIDEND

The Directors have determined that no dividend will be paid in respect of the Reporting Period (six months ended 30 June 2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Reporting Period, the Company recorded a revenue of approximately RMB450.7 million, representing a year-on-year decrease of 11%. During the Reporting Period, the gross profit of the Company was approximately RMB145.3 million, representing a year-on-year decrease of 24.8%. The net profit was approximately RMB63 million (or approximately RMB88 million if non-cash loss in fair value change of Convertible Bonds (as defined below) and Warrants (as defined below) was excluded), representing a year-on-year decrease of 45.2% from RMB115 million in the first half of 2013 (or 23.48% if non-cash loss in fair value change of Convertible Bonds and Warrants was excluded). And the profit attributable to the Shareholders for the Reporting Period was approximately RMB55.0 million.

In the first half of 2014, the reclamation and capital dredging ("CRD") business of the Company declined, while the environmental protection dredging ("EPD") business remained stable as compared with the corresponding period of previous year. The Company took up some new orders of reclamation projects during the Reporting Period. Regarding the EPD business, with various favorable policies in water treatment industry coming into force in the PRC gradually, the segment growth is accelerating. Although the contract for Phase 2 of EPD project at Nanhu, Wuhan (武漢南湖) has not yet been signed as at the date of this announcement, the Group has been carrying out the work for the extension part of Phase one of the said EPD project since the completion of the work for the original Phase one in early 2014. Further, as the Group's factory started to produce dewatering equipment, the Group's capacity for EPD business would certainly be increased to enable the Group to take up new EPD projects.

Despite the presence of the positive factors mentioned above, the Group's revenue recorded for the Reporting Period dropped as compared to the first half of 2013. One of the major factors for the decrease is that the progress of the construction of certain projects slowed down. Due to the larger than expected downward pressure of the PRC domestic macroeconomic condition, certain projects have not proceeded as fast as originally anticipated. Further, the construction work of the reclamation project at Longkou City, Shandong Province has been suspended and has not yet been resumed due to the variation of the construction plan made by the project owner, and the suspension time was longer than what was originally estimated. Furthermore, Phase one of EPD project at Zhuzhou (株洲) has not yet been commenced as planned before. The Group is in the course of reviewing the corresponding construction timetable with its customers in relation to the projects. The net profit of the Company for the first half of 2014 as compared to the first half of 2013 had also declined as mentioned. Apart from the drop of revenue, it was also attributable to the following factors, namely: (i) the non-cash fair value loss of (a) an unsecured convertible bonds issued in November 2013 ("Convertible Bonds") and (b) a series of warrants issued in January 2014 ("Warrants"), with an aggregate loss of approximately RMB25 million; and (ii) the increase of depreciation value of the Group's fixed asset of approximately RMB9 million.

Future Prospects

Though the construction progress of certain projects slowed down in the first half of 2014, the Company's view of the promising prospect of both CRD and EPD buisness in the PRC has not changed. However, the increase in projects of smaller size situated in different locations instead of a big project situated in one location with several phases such as Caofeidian (曹妃甸) has become a trend in reclamation dredging segment. Therefore, the management will pay more effort to get more projects in order to maintain the aggregate quantity of work in the order book.

Needless to reiterate, the PRC government's determination and full dedication to tackle water pollution problem is without doubt. More favorable policies regarding the water sector have been introduced and implemented gradually. The Group's management believes that the Company's leading technology which will not cause secondary pollution to the surrounding water bodies and soil with the treated water attaining level III category (suitable for swimming) and the sludge cake dehydrated more than 50% shall ensure a competitive edge over the other types of dewatering technology currently available in the PRC market. Apart from making endeavors to successfully bid EPD projects to be carried out at Taihu* (太湖), Chaohu*(巢湖) and Dian Lake* (滇池) etc., the Company shall, with its various self-developed sludge treatment technologies and processes (some of the technologies have obtained patent certificates from the PRC government) and its professional expertise in stabilizing and solidifying heavy metal contaminated soils, identify and pursue different opportunities in relation to the treatment of sludges generated from industrial contaminated and urban waste water.

Financial Review

Overview

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 period, the Group recorded a slight decrease in revenue. Revenue for the six months ended 30 June 2014 was about RMB450.717 million, representing a decrease of about 11% as compared with about RMB505.3 million in the corresponding period of 2013.

* *for identification only*

As regards the CRD Business segment and EPD and Water Management Business segment, the respective revenues generated during the six months ended 30 June 2014 were about RMB203.065 million and about RMB129.31 million which represented a decrease of about 11.8% and a decrease of about 26.2% respectively from the corresponding segments' revenue in the corresponding period of 2013. The decrease in revenue from the CRD Business segment was primarily due to the downward of the PRC domestic macroeconomic condition and delay of certain projects. Revenue from EPD and Water Management Business segment decreased by 26.2% in the first half of 2014 because of lower revenue from the water management business during the period due to the expiration of the water management contract that was secured in 2012 in the first half of 2014.

The revenue generated from the Dredging Related Construction Business during the six months ended 30 June 2014 was about RMB33.194 million which represented an increase of about 43.7% as compared with about RMB23.1 million in the corresponding period of 2013. The increase in revenue in this segment was due to recognition of our construction capabilities and project quality by the owners of CRD Business, who also engaged us to carry out dredging related construction work for them.

Other Marine Business contributed revenue of about RMB85.148 million to the Group for the six months ended 30 June 2014, which represented an increase of about 11.2% as compared with about RMB76.6 million in the corresponding period of 2013.

Further details of the Company's business in the period are set out in the section headed "Business Review" above.

Operating cost and gross profit

The Group's operating cost decreased from about RMB312.1 million for the six months ended 30 June 2013 to about RMB305.4 million for the six months ended 30 June 2014, representing a decrease of about 2%. The Group recorded a gross profit of about RMB145.3 million for the six months ended 30 June 2014, representing a decrease of 24.8% as compared with the six months ended 30 June 2013 of about RMB193.2 million. The significant decrease in gross profit was due to lower revenue as well as increased dredger depreciation, maintenance cost and staff wages.

The gross profit margin of CRD Business dropped from about 42.6% for the six months ended 30 June 2013 to 35% for the six months ended 30 June 2014, mainly due to the low utilization rate of newly purchased dredger which required certain tuning of the engine and equipment during the Reporting Period for optimizing its productivity, increased depreciation as well as increase in renewal and maintenance cost and staff cost.

The Group's Dredging Related Construction Business, which principally includes ancillary construction work of capital and reclamation dredging services, is a segment that traditionally operated at relatively low but acceptable gross profit margin.

The gross profit margin of EPD and Water Management Business segment slightly decreased from about 30.9% for the six months ended 30 June 2013 to about 29.1% for the six months ended 30 June 2014 as the water management projects with lower gross profit margin took up the majority share of the segment during the Reporting Period. The gross profit margin of Other Marine Business was about 44.3% for the six months ended 30 June 2013 and about 28.9% for the six months ended 30 June 2014, mainly due to increased competition in the salvage industry.

As a result, the overall gross profit margin of the Group decreased from 38.2% for the six months ended 30 June 2013 to 32.2% for the six months ended 30 June 2014.

Other income

Other income significantly increased from RMB12.5 million for the six months ended 30 June 2013 to about RMB25.712 million for the six months ended 30 June 2014, mainly due to the increase in interest income in respect of certain non-current accounts receivable and current consideration receivable during the period.

Net loss due to fair value changes of derivations financial liabilities

There was a non-cash loss of about RMB25 million due to the change of fair value of Convertible Bonds and Warrants. The issue of Convertible Bonds and Warrants did provide strong capital support for the development of the Group's business, in particular the environmental protection dredging business, enhance the Group's market presence and competitiveness and strengthen the Group's capital base effectively after the Convertible Bonds' and Warrants' full conversion. Please refer to the Company's announcements dated 29 October 2013, 24 December 2013, 9 January 2014 and 17 January 2014. No issuance of any bonds and/or warrants were/was made in first half of 2013.

Marketing and promotion expenses

Marketing and promotion expenses for the six months ended 30 June 2014 remained at a reasonable level which is in line with the corresponding period in 2013.

Administrative expenses

Administrative expenses for the six months ended 30 June 2014 remained at a reasonable level which is in line with the corresponding period in 2013.

Finance costs

Finance costs increased by about RMB11.4 million to about RMB28.2 million for the six months ended 30 June 2014 as compared to the six months ended 30 June 2013, mainly due to amortisation of convertible bonds using effective interest method.

Income tax expense

Due to the decrease in profit before tax, income tax expense for the six months ended 30 June 2014 amounted to about RMB37.1 million, representing a decrease of about RMB5.6 million compared with the corresponding period in 2013.

Profit for the period

As a combined effect of the above, the net profit for the period decreased by about 45% from about RMB115.0 million for the six months ended 30 June 2013 to about RMB63.0 million for the six months ended 30 June 2014. Comparing the operating profit of the six months ended 30 June 2013 with the operating profit for the Reporting Period (with the non-cash net loss of about RMB25 million due to fair value changes of derivative financial liability as above mentioned not taken into account), the operating profit dropped by about 24.8%.

Earnings per share

Earnings per share decreased from RMB0.13 per share to RMB0.07 per share due to the decrease in profit for the period.

Financial position, liquidity and financial resources

The Group has remained at a sound financial resource level. As at 30 June 2014, total equity of the Group amounted to about RMB1,746.0 million (31 December 2013: RMB1,595.4 million).

The Group's net current assets as at 30 June 2014 amounted to about RMB276 million (31 December 2013: RMB105.9 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 30 June 2014 was 1.23 (31 December 2013: 1.08). The increases in both the Group's net current assets and current ratio were mainly due to the decrease in short term bank borrowings and settlement of other payables, such as payment for purchasing of dredger.

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

Included in net current assets were cash and various bank deposits totaling about RMB202.8 million as at 30 June 2014, representing a decrease of about RMB109.4 million as compared with about RMB312.2 million as at 31 December 2013.

Due to slower settlement from the debtors, the Group's accounts and bills receivables as at 30 June 2014 increased by about RMB193.4 million to about RMB1,178.4 million. Though the Group did not have any collateral over the receivables, the Group's management considered that there is no recoverability problem as to its receivables as the amounts were mainly due from reputable enterprises and enterprises with financial support from the PRC government. The amount of overdue receivables as at 30 June 2014 did not significantly impair the Group's liquidity position as it has a positive operating cash flows before movements in working capital changes for the period.

Total liabilities of the Group decreased from RMB1,681.2 million as at 30 June 2013 to about RMB1,583.4 million as at 30 June 2014. The decrease in total liabilities was mainly due to the decrease in bank loans and settlement of payment for purchasing of dredger. The Group's gearing ratio (calculated by bank borrowings divided by total assets) decreased to a level of 16.6% (2013: 17.9%), which the Board believes is at a healthy level.

Charge over assets of the Group

As at 30 June 2014, the Group's bank borrowings and credit facilities are secured by pledged bank deposits of about RMB72.8 million, charges over certain dredgers, accounts receivables and land owned by the Group, one parcel of land owned by 鹽城市咏恒置業有限公司 (Yancheng City Yongheng Properties Co. Ltd*) ("Yongheng"), a property owned by a company which Mr. Liu has beneficial interest, two 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.

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 minimise the adverse effects of these risks on its financial performance.

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 currencies, and save for certain bank balances in United States dollars and Hong Kong dollars, the impact of foreign exchange exposure to the Group was minimal and there was no significant adverse effect on normal operations during the reporting period. As at the end of each reporting period, no related hedge was made by the Group.

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

Material acquisitions and disposals

Apart from the framework agreement entered with a state-owned enterprise in respect of the incorporation of a joint venture for the purpose of securing environmental protection dredging projects in Hunan Province, the PRC as disclosed in the Company's announcement dated 18 March 2014, there was no other material acquisitions or disposals during the period under review.

Capital commitments and contingent liabilities

Apart from the capital commitment in respect of setting up of a joint venture as set out in the paragraph headed "Material Acquisitions and Disposals" above, the Group did not have significant capital commitments committed but not provided for as at 30 June 2014.

As at 30 June 2014, the Group did not have any material contingent liability (31 December 2013: nil).

Employees and remuneration policy

As at 30 June 2014, the Group had a workforce of 671 employees (31 December 2013: 606). Total staff cost for the six months ended 30 June 2014 was about RMB27.4 million (2013: RMB19.9 million). The Group's remuneration policy is basically determined by the Directors, based on the performance of individual employees and the market conditions. In addition to salaries and discretionary bonuses, employee benefits included pension contributions and options which may be granted under the Share Option Scheme (under which options to subscribe for Shares that could be granted to independent non-executive Directors would be subject to the applicable conditions and independence restrictions as set out in the Listing Rules). The Group also provides on-going training to its employees.

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

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

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Stock Exchange made certain amendments ("Amendments") to the Listing Rules, which related to the Corporate Governance Code, ("CG Code") practices and reporting. Such revision took effect from 1 January 2012, 1 April 2012 or 31 December 2012 respectively.

The Company is committed to high standards of corporate governance. The Directors believe that the Company has complied with all the code provisions of the CG Code in Appendix 14 of the Listing Rules for the six months ended 30 June 2014 and there was no material deviation from the CG Code.

AUDIT COMMITTEE AND REVIEW OF UNAUDITED FINANCIAL STATEMENTS

The audit committee of the Company has been set up in accordance with the Listing Rules. Members of the audit committee as at 30 June 2014 comprised Mr. Chan Ming Sun Jonathan (chairman), Mr. Xu Hengju and Mr. Huan Xuedong, all of them are independent non-executive Directors.

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

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

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

By order of the Board
China Dredging Environment Protection Holdings Limited
Liu Kaijin
Joint Chairman, Executive Director and Chief Executive Officer

Hong Kong, 29 August 2014

As at the date of this announcement, the Board comprises Mr. Liu Kaijin as Joint Chairman, 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 Xue Dong, Mr. Chan Ming Sun Jonathan and Mr. Xu Hengju as Independent Non-executive Directors.