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## **China Dredging Environment Protection Holdings Limited**

**中國疏浚環保控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 871)**

### **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO 2020 ANNUAL REPORT**

Reference is made to the annual report of China Dredging Environment Protection Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2020 (the “**Annual Report**”). Unless otherwise defined, capitalised terms used herein shall bear the same meanings as those defined in the Annual Report.

The Company wishes to provide the following additional information in relation to (i) the use of proceeds from a share subscription under the general mandate; and (ii) the impairment losses on property, plant and equipment and right-of-use assets to the shareholders and potential investors of the Company.

#### **1) USE OF PROCEEDS FROM SUBSCRIPTION**

In addition to the information disclosed in the Annual Report regarding the issue of new shares pursuant to a subscription agreement dated 7 April 2020 (as supplemented by a supplemental agreement dated 23 November 2020), the Company would like to provide the additional information as required under paragraph 11(8) of Appendix 16 to the Listing Rules in relation to the use of proceeds from the subscription.

The Company has fully utilised the net proceeds of approximately HK\$18,876,000 (equivalent to approximately RMB16,495,000) from the subscription for the general working capital of the Group as intended, a detailed breakdown and a description of the actual use of which are provided as follows:

- (i) approximately 32.84% (HK\$6.20 million), for materials procurement and repairment and maintenance of vessels;
- (ii) approximately 21.50% (HK\$4.06 million), for employees’ remuneration;
- (iii) approximately 15.15% (HK\$2.86 million), for fuel costs;
- (iv) approximately 7.89% (HK\$1.49 million), for tax expenses;
- (v) approximately 7.89% (HK\$1.49 million), for management expenses;
- (vi) approximately 7.47% (HK\$1.41 million), for repayment of bank interest; and
- (vii) approximately 7.26% (HK\$1.37 million) for rental of vessels and equipment.

## **2) IMPAIRMENT LOSSES ON PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS**

For the year ended 31 December 2020, the Group recognised the impairment losses on property, plant and equipment of RMB248,130,000 and right-of-use assets of RMB5,855,000, totaling RMB253,985,000. Such impairment losses were mainly attributed to the impairment provision of certain dredgers and vessels for construction projects of the Group. Further details of the impairment can be found in note17 to the consolidated financial statements in the Annual Report.

### **Reasons for and the circumstances leading to the impairment losses**

As disclosed in the Annual report, due to the impact of the outbreak of COVID-19 pandemic, the progress of the construction projects of the Group seriously lagged behind their schedules or was even suspended, resulting in revenue decrease and losses recorded for two business segments, namely the capital and reclamation dredging business and the environmental protection dredging and water management business. The management of the Group reviewed the prospects of these businesses and considered that the degree of the negative impact on the Group's operations in the coming year was yet to be ascertained due to the uncertainties brought by the COVID-19 pandemic. Hence, the Group's management concluded that there were indicators for impairment and conducted impairment assessment on recoverable amounts of certain property, plant and equipment and right-of-use assets with carrying amounts of RMB861,250,000 and RMB5,855,000 respectively, including the allocation of corporate assets when reasonable and consistent basis could be established.

The management of the Group regards each of dredgers and vessels as a separately identifiable cash-generating unit and monitors its financial performance for the existence of impairment indicators, such as idle dredger and vessel and the operating loss generated from the dredger and vessel. Accordingly, the Group carried out an impairment assessment of the dredgers and vessels and corporate assets allocated to cash-generating units of the capital and reclamation dredging business and the environmental protection dredging and water management business. As a result, the carrying amounts of these assets were impaired down to its recoverable amounts.

### **Details of the value of inputs used for the valuation together with the approaches to value assessment and assumptions**

The recoverable amount of each cash-generating unit has been determined based on the higher of the value in use and the fair value less the costs of disposal. During the year ended 31 December 2020, the dredgers and vessels and their related accessories were impaired down to their respective fair values less costs of disposal. Such fair values were arrived at by a valuation carried out by an independent professional valuer at the end of the reporting period.

In the assessment of the values of the dredgers and vessels, all three approaches, namely the cost approach, the market approach and the income approach, were considered. The market approach was the primary basis upon which the dredgers and vessels were appraised. Under the market approach, each of the dredgers and vessels was valued with reference to recent sales of comparable dredgers and vessels adjusted for differences in age and dimensions of the dredgers and vessels. The sources of data regarding the sales of comparable dredgers and vessels were obtained from the online public information disclosed by brokers for the sales of dredgers and vessels. Due to the special nature of some of the vessels, market data was not always available to draw value conclusions. In these instances, the cost approach was given some considerations. The dredgers' values were appraised with reference to their useful lives and also fair wear and tear. The income approach was not utilised because of the lack of sufficient financial data with respect to the vessels which are essential materials for the adoption of this approach.

In order to determine the fair value, the valuer made the following major assumptions:

- (i) The property is free and clear of any or all liens or encumbrances unless otherwise stated;
- (ii) Title to the property is assumed to be good marketable unless otherwise stated;
- (iii) It is assumed that the property included in the appraisal is owned by the Group;
- (iv) It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined and considered in the appraisal report; and
- (v) It is assumed that all vessels are built up to industry standard and met the safety requirement of the Maritime Safety Administration of the PRC. The general condition of the assets was deemed to be fairly maintained with normal wear and tear.

After the impairment assessment of the dredgers and vessels, the impairment losses of RMB221,301,000 on the dredgers and vessels and RMB1,551,000 on the vessel accessories (classified under “plant and machinery” under note 17 to the consolidated financial statement of the Annual Report) were recognised.

Further, the Company identified the headquarter office under renovation in Yancheng City, Jiangsu Province, the PRC and the related leasehold lands as corporate assets that related to cash-general units under impairment review. In accordance with the Hong Kong Accounting Standard 36 “Impairment of Assets”, a portion of the carrying amount of the said corporate assets was allocated to both of the capital and reclamation dredging business and the environmental protection dredging and water management business which recorded segment losses, on a reasonable and consistent basis. The carrying amount of the corporate assets was impaired on a prudent basis. Therefore, the impairment losses of RMB25,278,000 on the construction in progress for the headquarter office and RMB5,855,000 on right-of-use assets for the leasehold lands were recognised.

The valuation method and the value of the inputs and assumptions adopted by the Company for the valuation of the dredgers and vessels have not been changed over the previous year.

The information contained in this supplemental announcement does not affect other information contained in the Annual Report and save as disclosed above, all other information in the Annual Report remains unchanged.

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

Hong Kong, 6 September 2021

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