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XIANGYU DREDGING HOLDINGS LIMITED

翔宇疏浚控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 871)

DISCLOSEABLE TRANSACTION: ACQUISITION OF EQUITY INTEREST IN A PRC ENTERPRISE TARGETCO

The Board announces that on 19 September 2011 (after trading hours), the Purchaser (being a subsidiary of the Company) entered into (i) the Transfer Agreement with the Original Targetco Equity-holders; (ii) the Subscription Agreement with Targetco and the Original Targetco Equity-holders; and (iii) the Memorandum with Targetco and the Original Targetco Equity-holders. Under the Transfer Agreement, the Purchaser has conditionally agreed to purchase from the Original Targetco Equity-holders an aggregate of 11% equity interest (before enlargement of registered capital pursuant to the Subscription Agreement) in Targetco at the Purchase Price of RMB27.5 million (subject to only downward adjustment). Under the Subscription Agreement, the Purchaser has conditionally agreed to subscribe for new equity capital in Targetco with a face value of RMB32,698,776 at the Subscription Price of RMB100 million (subject to only downward adjustment).

The Purchase Price provided under the Transfer Agreement is to be settled by cash within 15 Business days after the Conditions Precedent Satisfaction Date.

The Subscription Price is provided under the Subscription Agreement to be settled by cash by five instalments. The first instalment, in the sum of RMB45.0 million is payable within 15 Business days after the Conditions Precedent Satisfaction Date. The last instalment (in the sum of RMB9.20 million) is payable on 31 December 2014.

Under the Subscription Agreement, the Original Targetco Equity-holders have agreed to give certain profit guarantees in favour of the Purchaser.

Immediately after completion of the Transfer Agreement and the Subscription Agreement, the Group will be interested in 51% of the enlarged registered capital of Targetco.

Given that the highest of the relevant percentage ratios of the Acquisition (i.e. the Transfer and the Subscription taken together) is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company, which is subject to the reporting and publication of announcement requirements, but is exempt from the publication of circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

The Board announces that on 19 September 2011 (after trading hours), the Purchaser entered into (i) the Transfer Agreement with the Original Targetco Equity-holders; (ii) the Subscription Agreement with Targetco and the Original Targetco Equity-holders; and (iii) the Memorandum with Targetco and the Original Targetco Equity-holders. Under the Transfer Agreement, the Purchaser has conditionally agreed to purchase from the Original Targetco Equity-holders an aggregate of 11% equity interest (before enlargement of registered capital pursuant to the Subscription Agreement) in Targetco at the Purchase Price of RMB27.5 million (subject to only downward adjustment). Under the Subscription Agreement, the Purchaser has conditionally agreed to subscribe for new equity capital in Targetco with a face value of RMB32,698,776 at the Subscription Price of RMB100 million (subject to only downward adjustment).

(A) PRINCIPAL TERMS OF THE TRANSFER AGREEMENT

Date of the Transfer Agreement:

19 September 2011

Parties to the Transfer Agreement:

- (1) vendors: Original Targetco Equity-holders, being a total of 45 individuals whose registered equity-holdings in Targetco ranged from 0.60% to 13.85%
- (2) purchaser: the Purchaser, a subsidiary of the Company

Each of the Original Targetco Equity-holders is a person who, to the best of the Directors' knowledge and belief, after having made all reasonable enquiries, is not a connected person of the Company and is an Independent Third Party.

Subject matter of the Transfer Agreement

As at the date of the Transfer Agreement, Targetco's registered capital amounted to RMB40,056,000. Under the Transfer Agreement, the Original Targetco Equity-holders have conditionally agreed to sell to the Purchaser (and the Purchaser has conditionally agreed to purchase) a portion of the registered capital in the total face value of RMB4,406,160 (which represents 11% equity interest (before enlargement of registered capital pursuant to the Subscription Agreement) in Targetco), and each Original Target Equity-holder has agreed to transfer such amount of registered capital in Targetco in proportion to his/her respective equity-holdings in Targetco.

Consideration

The Purchase Price under the Transfer Agreement is RMB27.5 million (subject to only downward adjustment) and will be settled by cash. The Purchase Price is payable by the Purchaser to the Original Targetco Equity-holders within 15 Business days after the Conditions Precedent Satisfaction Date.

Completion of the Transfer Agreement

Completion of the Transfer Agreement is subject to, among other matters, (i) the result of the Purchaser's due diligence review on Targetco being to the reasonable satisfaction of the Purchaser, (ii) a PRC legal opinion (in such form and substance to the reasonable satisfaction of the Purchaser) being received by the Purchaser, and (iii) (where required) the Company obtaining the necessary approval in respect of the Acquisition in accordance with the applicable Hong Kong laws and the Listing Rules. Should these condition precedents are not fulfilled on or before 31 December 2011 (or another date to be agreed between the parties) or the Purchaser has not provided waiver(s) to fulfilling conditions (i) and (ii) above, the Transfer Agreement shall be terminated; unless there is any breach(es) to the Transfer Agreement prior to its termination, any party(ies) to this agreement shall not be entitled to any redress against any other party(ies) for its/his/her responsibilities or obligations thereunder. In addition, the transaction contemplated under the Transfer Agreement must be completed at the same time as the transaction contemplated under the Subscription Agreement.

Under the Transfer Agreement, completion of the Transfer is deemed to take place on the date of the Purchaser's payment of the Purchase Price to the Original Targetco Equity-holders. Upon such completion, the Purchaser shall be entitled to exercise the right attaching to 11% equity interest (before enlargement of registered capital pursuant to the Subscription Agreement) in Targetco. The date of payment of the Purchase Price will be the same as that of payment of the first instalment of the Subscription Price.

Immediately after such completion, the board of directors of Targetco will be reconstituted to have five members, three of which will be nominated by the Purchaser, and the remaining two will be nominated by the Original Targetco Equity-holders.

(B) PRINCIPAL TERMS OF THE SUBSCRIPTION AGREEMENT

Date of the Subscription Agreement:

19 September 2011

Parties to the Subscription Agreement:

- (1) Equity-holders: Original Targetco Equity-holders
- (2) subscriber: the Purchaser
- (3) subject company: Targetco, a limited liability company whose principal business is salvaging of sunk objects and contractor of provision of engineering services for ports and channels

Each of Targetco and its beneficial owners (i.e. the Original Targetco Equity-holders) is a person who, to the best of the Directors' knowledge and belief, after having made all reasonable enquiries, is not a connected person of the Company and is an Independent Third Party.

Subject matter of the Subscription Agreement

Under the Subscription Agreement, Targetco has conditionally agreed to issue, and the Purchaser has conditionally agreed to subscribe for new equity capital in Targetco with a face value of RMB32,698,776 at the Subscription Price of RMB100 million (subject to only downward adjustment).

Immediately after completion of the Subscription, Targetco's registered capital will be increased from RMB40,056,000 to RMB72,754,776. Having taken into account the registered capital in the sum of RMB4,406,160 agreed to be acquired under the Transfer Agreement and RMB32,698,776 agreed to be acquired under the Subscription Agreement, the Purchaser will become the owner of 51% equity interest in Targetco, and the Original Targetco Equity-holders together will own 49% equity interest in Targetco.

Consideration

The total Subscription Price under the Subscription Agreement is RMB100 million (subject to only downward adjustment) and will be settled by cash. The Subscription Price is payable by the Purchaser to Targetco in five instalments:

- (i) as to RMB45.0 million, within 15 Business days after the Conditions Precedent Satisfaction Date;

- (ii) as to RMB27.5 million within five Business days after the date on which Targetco will have completed the transfer to Targetco of the Relevant Assets currently held by some of the Original Targetco Equity-holders and obtaining the relevant certificate of ownership of the Relevant Assets;
- (iii) as to RMB9.15 million on 31 December 2012;
- (iv) as to RMB9.15 million on 31 December 2013; and
- (v) as to RMB9.20 million on 31 December 2014.

The amount of Subscription Price which exceeds the face value of the registered capital in Targetco being subscribed will, upon payment, be recorded as capital surplus fund (資本公積金) of Targetco.

Completion

Completion of the Subscription Agreement is subject to, among other matters, (i) the result of the Purchaser's due diligence review on Targetco being to the reasonable satisfaction of the Purchaser, (ii) a PRC legal opinion (in such form and substance to the reasonable satisfaction of the Purchaser) being received by the Purchaser, and (iii) (where required) the Company obtaining necessary approval in respect of the Acquisition in accordance with the applicable Hong Kong laws and the Listing Rules. Should these condition precedents are not fulfill on or before 31 December 2011 (or another date to be agreed between the parties) or the Purchaser has not provided waiver(s) to fulfilling conditions (i) and (ii) above, the Subscription Agreement shall be terminated; unless there is any breach(es) to the Subscription Agreement, any party(ies) to this agreement shall not be entitled to any redress against any party(ies) thereunder. In addition, the transaction contemplated under the Subscription Agreement must be completed at the same time as the transaction contemplated under the Transfer Agreement (i.e. payment of the first instalment under the Subscription Agreement).

Completion of the Subscription shall take place on the date of payment in full of the first instalment of the Subscription Price. Upon such completion, the Purchaser shall be entitled to exercise the right attaching to the 51% of the enlarged registered capital of Targetco (inclusive of the registered capital acquired under the Transfer).

Entitlement to profits of Targetco

Under the Subscription Agreement, it has been agreed that the Purchaser on the one part and the Original Targetco Equity-holders taken together on the other part shall share the profits of Targetco in the proportion of 55% and 45% up to 31 December 2014 respectively.

Representations, warranties and undertakings given by Targetco and the Original Targetco Equity-holders under the Transfer Agreement and the Subscription Agreement

In addition to the usual representations and warranties such as good title to assets and holding of valid licences for the businesses currently carried on by Targetco in its ordinary course of business, the Original Targetco Equity-holders and Targetco have also under the Subscription Agreement and/or the Transfer Agreement given, among other matters, the following representations, warranties and undertakings.

1. The management accounts as of 30 June 2011 as supplied by Targetco giving an accurate financial status of Targetco in all material aspects up to that date.
2. Where there exists any liability which is not recorded in such management accounts, the Original Targetco Equity-holders shall compensate Targetco for any such unrecorded liability. To facilitate repayment or payment of any such liability, the Purchaser is entitled to make payment to Targetco or the relevant creditor(s) and, in such event, the consideration payable to the Original Targetco Equity-holders may be reduced accordingly.
3. Unless approved by the new board of directors of Targetco reconstituted after completion of the Transfer Agreement, the Original Targetco Equity-holders and the senior management of Targetco shall not engage nor assume office in any business which is in competition with that of Targetco during the period of holding of equity interests or office (as the case may be) in Targetco, and for a period of two years after his/her ceasing to hold equity interest or office (as the case may be) in Targetco except for those who are not senior management and hold investment amount of RMB300,000 or below before completion of the Transfer Agreement.
4. The after-tax net profit of Targetco which the Purchaser is entitled to receive for the financial year ending 31 December 2011 shall not be less than RMB10 million;
5. The after-tax net profit of Targetco for each of the three financial years ending 31 December 2012, 2013 and 2014 shall not be less than RMB40 million, RMB42 million and RMB45 million respectively; and
6. Any after-tax net profit of Targetco to be distributed shall first be paid to the Purchaser to satisfy in full the portion to which the Purchaser is entitled, and where there is any shortfall and the remaining balance of such after-tax net profit of Targetco is:
 - (i) equal to or larger than the shortfall, an amount equal to the shortfall shall first be paid from such remaining balance to the Purchaser to satisfy the shortfall in full, before making any payment to the Original Targetco Equity-holders, or
 - (ii) smaller than the shortfall, the Original Targetco Equity-holders would be liable to compensate the Purchaser for such shortfall. Under the Memorandum (as mentioned below), the Purchaser is entitled to deduct any such shortfall from any Original Targetco

Equity-holder's loans, the portion of the Subscription Price to be applied for acquisition of the Relevant Assets or the portion to be paid as capital surplus fund as part of the Subscription Price.

Under the Subscription Agreement, the Purchaser, Targetco and the Original Targetco Equity-holders have agreed that Targetco shall continue to be responsible for the funding of the construction of the Floating Crane Craft (i.e. a self-propelled floating crane craft) which is currently under construction, provided that where Targetco suffers a shortage of operating cash flow for its construction and Targetco also has difficulty to raise loans from third party(ies), the Purchaser and the Original Targetco Equity-holders shall finance Targetco by further capital injection or providing equity-holders' loans in proportion to their then equity-holdings. Where there is sufficient operating cash flow as well as funds for construction of the Floating Crane Craft, any advances made by the Purchaser and the Original Targetco Equity-holders shall be repaid in proportion to their then equity-holdings.

(C) PRINCIPAL TERMS OF THE MEMORANDUM

Date of the Memorandum:

19 September 2011

Parties to the Memorandum:

- (1) Original Targetco Equity-holders
- (2) the Purchaser
- (3) Targetco

Undertakings under the Memorandum

Under the Memorandum, the parties have further agreed and undertaken, among other matters, on the following matters:

(a) *Transfer of the Relevant Assets*

The Relevant Assets (including properties, vehicles and vessels) which have not been recorded in the financial statements of Targetco shall be transferred by the Original Target Equity-holders to the Targetco at a consideration to be determined according to market price within 60 days from the date of the Memorandum by the signing of relevant asset-transfer agreement(s) and completion of the relevant procedures for recording such change of ownership.

If any of the Relevant Assets are not transferred within the agreed timeframe, the Subscription Price shall be adjusted downward by the amount of the Relevant Assets not so transferred to Targetco, provided that the face value of new equity capital subscribed by the Purchaser under the Subscription Agreement would not be changed.

(b) *Loan from Purchaser and Original Targetco Equity-holders*

Under the terms of the Memorandum, the Original Targetco Equity-holders shall according to their respective equity holdings in Targetco (after completion of the Subscription) provide a loan in the sum of not less than RMB45 million in aggregate to Targetco as working capital to ensure completion of the timely construction of the Floating Crane Craft. The Purchaser shall also according to its equity holding in Targetco (after completion of the Subscription) make advances to Targetco in the sum of not less than approximately RMB46.8 million based on the construction progress of the Floating Crane Craft to ensure timely construction.

(c) *Application of the Subscription Price by Targetco*

Under the Memorandum, it has been agreed that (i) as to RMB36.86 million of the Subscription Price shall be used by Targetco to repay the indebtednesses owing to the Original Targetco Equity-holders; and (ii) part of the Subscription Price shall be used by Targetco for the acquisition of the Relevant Assets; and (iii) the remaining portion of the Subscription Price shall be used for repayment of any other indebtednesses owing by Targetco.

The aggregate value of the consideration of transfer of the Relevant Assets and the Targetco's indebtedness owing to the Original Targetco Equity-holders shall not exceed RMB100 million.

INFORMATION ON THE GROUP, TARGETCO AND THE ORIGINAL TARGETCO EQUITY-HOLDERS

The Company is an investment holding company providing dredging services in the PRC, ranging from capital dredging, reclamation dredging, maintenance dredging and environmental protection dredging.

Targetco is a limited liability company incorporated in the PRC and is principally engaged in the business of salvaging sunk objects and contractor of provision of engineering services for ports and channels. Targetco is certified with Class I salvaging qualifications for inland rivers (內河打撈) and Class II salvaging qualifications for coastal waters (沿海打撈) awarded by the Diving and Salvaging Management Committee of the Ministry of Communications* (交通部潛水打撈管理委員會) and Class II sub-contractor engineering qualifications for port and waterways (港口與航道工程施工總承包二級) by Construction Engineering Administration of Jiangsu Province* (江蘇省建築工程管理局). All the Original Targetco Equity-holders are individuals, some of them are part of the management and/or staff of Targetco.

Targetco currently owns several vessels. Under the laws of the PRC, Xiangyu PRC (if it became an equity-holder of the Targetco) must hold less than 50% equity interest in Targetco. Accordingly, the Purchaser has been selected by the Group to be the purchaser and subscriber under the Transfer Agreement and Subscription Agreement respectively.

The Directors consider that the Acquisition (if completed) would enable the Group to create synergy to its existing business, such as utilizing the salvaging services provided by Targetco, while broadening the Group's income stream as well as enabling cross-referral of customers by the Group and Targetco to each other to enhance new business opportunities. The Directors believe that the proposed acquisition is in the interest of the Company and its Shareholders as a whole.

Upon completion of the Acquisition, Targetco will become a non wholly-owned subsidiary of the Company, and the financial results of Targetco will be combined and accounted for as a subsidiary of the Company.

Financial Information of Targetco

Based on the unaudited management accounts of the Targetco, the total assets of Targetco as at 31 December 2010 amounted to about RMB191.4 million. Set out below is the summary of the unaudited key financial information of Targetco for the two years ended 31 December 2010 and the six months ended 30 June 2011:

	Year ended 31 December 2009 <i>(in RMB million)</i>	Year ended 31 December 2010 <i>(in RMB million)</i>	Six months ended 30 June 2011 <i>(in RMB million)</i>
Revenue	142.8	88.5	53.6
Net profit (before tax)	5.4	3.5	16.6
Net profit (after tax)	4.0	2.5	16.1

Under the Subscription Agreement, the Transfer Agreement and the Memorandum, the Purchaser is obliged to pay (as a total of the Subscription Price, the Purchaser Price and equity-holder's loans to finance the construction of the Floating Crane Craft) up to about RMB174.3 million to Targetco and the Original Targetco Equity-holders.

The Purchase Price and the Subscription Price were determined after arm's length negotiations between Targetco, the Original Targetco Equity-holders and the Purchaser, after taking into consideration factors such as the financial information of Targetco as stated above, the value of the Relevant Assets and, the

potential growth of the Targetco and synergy with the Group's business. The Directors consider that the terms of the Acquisition (including the Purchase Price and the Subscription Price) are on normal commercial terms, are fair and reasonable and in the interests of the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

Given that the highest of the relevant percentage ratios of the Acquisition (i.e. the Transfer and the Subscription taken together) is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company, which is subject to the reporting and publication of announcement requirements, but is exempt from the publication of circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, the following definitions shall have the meanings set out below, unless the context requires otherwise:

“Acquisition”	collectively, the Transfer and the Subscription
“Board”	the board of Directors
“Business days”	a day on which governmental authority in the PRC are open for operation (including Monday to Friday, and excluding public holidays)
“Company”	Xiangyu Dredging Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“Conditions Precedent Satisfaction Date ”	the day on which all necessary approvals being obtained from the Company in accordance with the applicable Hong Kong laws and the Listing Rules/the day on which the conditions precedent to completion of the Transfer Agreement and the Subscription Agreement being fulfilled or waived regarding the Acquisition
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Floating Crane Craft”	a self-propelled floating crane-craft (起重船) under “2000T” specification which is under construction and owned by Targetco
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

“Independent Third Party(ies)”	a third party independent of and not connected with the Company and its subsidiaries and its connected persons (as defined under the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum”	the memorandum dated 19 September 2011 and entered into between the Purchaser, Targetco, and the Original Targetco Equity-holders
“Original Targetco Equity-holders”	45 natural persons who are the registered equity-holders who, as at the date of the Transfer Agreement, owned the entire equity interest in Targetco
“PRC”	the People’s Republic of China
“Purchaser”	江蘇興宇港建有限公司 (Jiangsu Xingyu Port Construction Company Limited*), a limited liability company incorporated in the PRC and the financial results of which have been combined and accounted for as a subsidiary of the Company by way of certain contractual arrangements made by Xiangyu PRC with the Purchaser and its shareholders
“Purchase Price”	the total consideration of RMB27.5 million under the Transfer Agreement subject to only downward adjustment
“Relevant Assets”	those assets as set out in a list annexed to the Memorandum, which include properties, vehicles and vessels, held by and to be transferred from the Original Targetco Equity-holders by Targetco in accordance with the terms of the Memorandum
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	holders of the Shares
“Share(s)”	share(s) of HK\$0.1 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription by the Purchaser of new equity capital in Targetco with a face value of RMB32,698,776 pursuant to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 19 September 2011 and entered into between the Purchaser, Targetco, and the Original Targetco Equity-holders

“Subscription Price”	the total consideration of RMB100 million under the Subscription Agreement, subject to only downward adjustment
“Targetco”	江蘇蛟龍打撈航務工程有限公司 (Jiangsu Jiaolong Salvage Harbour Engineering Co. Ltd*), a limited liability company incorporated under the laws of the PRC
“Transfer”	the transfer of 11% equity interest (before enlargement of registered capital pursuant to the Subscription Agreement) in Targetco from the Original Targetco Equity-holders to the Purchaser, pursuant to the terms and conditions of the Transfer Agreement
“Transfer Agreement”	the transfer agreement dated 19 September 2011 and entered into between the Purchaser and the Original Targetco Equity-holders
“Xiangyu PRC”	江蘇翔宇港建工程管理有限公司 (Jiangsu Xiangyu Port Constructing Project Administration Co., Ltd.*), a wholly foreign-owned enterprise established under the laws of the PRC, which as an indirectly wholly owned subsidiary of the Company

By order of the Board
Xiangyu Dredging Holdings Limited
Liu Kaijin
Chief executive officer and executive Director

Hong Kong, 19 September 2011

As at the date of this announcement, the Board comprises Mr Liu Kaijin and Ms Zhou Shuhua as executive Directors; Mr Dong Liyong as non-executive Director and chairman; and Ms Leung Mei Han, Mr Zhang Jun and Ms Peng Cuihong as independent non-executive Directors.

* *For identification purpose only*