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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)

VOLUNTARY ANNOUNCEMENT: ENTERING INTO FRAMEWORK AGREEMENT FOR THE INCORPORATION OF A JOINT VENTURE COMPANY IN HUNAN PROVINCE, THE PRC

The board (“**Board**”) of directors of Xiangyu Dredging Holdings Limited (“**Company**”) is pleased to announce that on 19 October 2012, the Company entered into a legally binding framework agreement (“**Agreement**”) with Zhuzhou Cyclic Economy Investment and Development Co., Ltd.* (株洲循環經濟投資發展有限責任公司) (“**Zhuzhou Investment**”), a State-owned enterprise established by the Committee of Zhuzhou Qingshuitang Cyclic Economy Industrial Zone* (株洲清水塘循環經濟工業區委員會). Under the Agreement, the Company and Zhuzhou Investment have agreed to take steps to incorporate a new enterprise (i.e. New JV) in Hunan Province, the PRC.

The purpose of the incorporation of the New JV is to secure the projects (“**Qingshui Lake Projects**”) of environmental management and construction of infrastructure to be carried out in the Qingshui Lake area. These projects are expected to last for about five years. The total project value of the Qingshui Lake Projects is expected to be approximately RMB2 billion.

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BACKGROUND INFORMATION OF ZHUZHOU INVESTMENT

Zhuzhou Investment is the financing and investment platform of the local government of the Zhuzhou Qingshuitang Cyclic Economy Industrial Zone* (株洲清水塘循環經濟工業區), which is responsible for, among other matters, the environmental management, building of infrastructure in the Qingshui Lake* (清水湖) area, Hunan Province, the PRC. Zhuzhou Investment is a third party independent of and not connected with the Company and its subsidiaries and its connected persons (as defined under the Listing Rules).

PRINCIPAL TERMS OF THE AGREEMENT

Proposed permitted business scope of New JV

The proposed permitted business scope of New JV is intended to include, among others, investment in and operation of environmental infrastructure, environmental engineering projects, as well as treatment of solid waste and sewage, which shall be subject to the final approval by the relevant PRC authorities.

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Initial registered capital of New JV and future transfer

Under the Agreement, the initial registered capital of New JV is RMB50 million. The Company and Zhuzhou Investment will initially inject RMB40 million and RMB10 million (which represents 80% and 20% respectively of the initial registered share capital of New JV). The Company will be responsible for contributing to the first instalment of the registered capital in the sum of RMB30 million upon incorporation of New JV, and the remaining registered capital will be contributed by parties within 12 months from the date of the issue of the business licence of New JV.

Under the Agreement and as further affirmed by the Company and Zhuzhou Investment, on 19 October 2012, the total capital commitment of the Company at the current stage is only confined to RMB40 million (which represents the Company’s contractual commitment to make contribution to 80% of New JV’s initial registered capital). Further, no guarantee nor indemnity has been agreed by the Company to be provided in connection with the establishment of New JV.

Under the Agreement, after incorporation of New JV and upon completion of the preliminary examination and evaluation of the Qingshui Lake Projects, the Company will take steps to transfer a portion of the entire registered capital in New JV owned by the Company (amount of which would constitute 60% of the entire registered capital in New JV) to a strategic investor to be agreed between the Company and Zhuzhou Investment, which as a result will reduce the registered capital held by the Company in New JV to 20%. After such transfer, the registered capital will be held by the new strategic investor, the Company and Zhuzhou Investment in the proportion of 60%, 20% and 20% respectively.

Obligations of the Company and Zhuzhou Investment under the Agreement

Under the Agreement, Zhuzhou Investment's main obligations include, among others, (i) liaison with Committee of Zhuzhou Qingshuitang Cyclic Economy Industrial Zone and other relevant government authorities; and (ii) coordinating the detailed planning of the Zhuzhou Qingshuitang Cyclic Economy Industrial Zone.

Under the Agreement, the Company's main obligations include (i) establishment of a platform to raise funds in respect of the Qingshui Lake Projects; (ii) the New JV's operation in respect of the Qingshui Lake Projects; and (iii) provision of technical support to the New JV.

Management structure of New JV

Under the Agreement, the decision-making authority of New JV is vested in its board of directors. The initial board of New JV will comprise three directors, of which one will be appointed by Zhuzhou Investment and two will be appointed by the Company. The chairman of the board will initially be appointed by the Company, and such appointment authority will be given to the new strategic investor following the Company's transfer of 60% equity interest in New JV to such new strategic investor. Ordinary resolutions of the board are required to be approved by over half of the directors of New JV, while special resolutions of the board are required to be approved by over two-thirds (and, for the avoidance of doubt, excluding two-thirds) of the directors of New JV.

OUTLOOK

The Board believes that the Agreement will allow the Group to participate in the Qingshui Lake Projects, which will enhance the environmental protection dredging business, and participate into relevant environmental protection business.

GENERAL

The Board wishes to emphasise that the establishment of New JV is subject to approval by the relevant governmental authorities of the PRC. In addition, the Company is still in the process of identifying the new potential strategic investors and no further agreement has been entered into. Public investors and shareholders of the Company are urged to exercise caution when dealing in shares in the Company. The Company will make further announcement(s) as and when appropriate.

By order of the Board
Xiangyu Dredging Holdings Limited
Liu Kaijin
*Joint Chairman, Executive Director and
Chief Executive Officer*

Hong Kong, 21 October 2012

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 Joint Chairman and a Non-executive Director; and Ms. Leung Mei Han, Ms. Peng Cuihong and Mr. Huan Xuedong as Independent Non-executive Directors.

* *For identification purpose only*