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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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL RESULTS

The board (the "Board") of directors (the "Director(s)") of Xiangyu Dredging 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 2011, together with the audited comparative figures for the year ended 31 December 2010 as follows, which are presented in Renminbi ("RMB"), the lawful currency of the People's Republic of China (the "PRC"):

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

	Notes	**2011** *RMB'000*	2010 *RMB'000*
Revenue	*3*	**1,137,303**	374,883
Operating cost		**(708,760)**	(204,823)
Gross profit		**428,543**	170,060
Other income	*4*	**44,088**	26
Marketing and promotion expenses		**(9,914)**	(2,979)
Administrative expenses		**(30,321)**	(6,267)
Listing expenses		**(11,786)**	(21,531)
Finance costs		**(4,880)**	(3,640)
Profit before tax		**415,730**	135,669
Income tax expense	*5*	**(112,566)**	(40,639)
Consolidated net profit of the Group for the year and profit for the year attributable to shareholders of the Company	*6*	**303,164**	95,030
Earnings per share	*7*		
— basic (RMB)		**0.43**	0.38

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**705,225**	376,300
Deposit paid for acquisition of property, plant and equipment		**150**	273
Trade receivables	9	**125,502**	—
		830,877	376,573
CURRENT ASSETS			
Trade and other receivables	9	**608,240**	280,440
Bank balances and cash		**125,788**	12,520
		734,028	292,960
CURRENT LIABILITIES			
Trade and other payables	10	**138,158**	127,678
Amounts due to directors		**60,321**	26,464
Tax payable		**111,445**	39,185
Bank borrowings		**25,000**	40,000
		334,924	233,327
NET CURRENT ASSETS		**399,104**	59,633
NET ASSETS		**1,229,981**	436,206
CAPITAL AND RESERVES			
Share capital/paid-in capital		**67,200**	39,451
Reserves		**1,162,781**	396,755
TOTAL EQUITY		**1,229,981**	436,206

NOTES:

1. GENERAL, REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated as an exempted company with limited liability under the Companies Law of Cayman Islands. The shares of the Company ("Shares") have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") with effect from 20 June 2011.

The consolidated financial statements have been prepared on the historical cost basis and in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

For the purpose of listing ("Listing") the Shares on the Stock Exchange, the entities in the Group have undergone a series of reorganisation steps to rationalise the group structure (the "Reorganisation"). As part of the Reorganization, 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) ("Jiangsu Xiangyu"), Mr. Liu Kaijin ("Mr. Liu") and Ms. Zhou Shuhua ("Ms. Zhou") entered into a series of agreements (the "Contractual Agreements") on 19 April 2011. Details of the principal terms of the Contractual Agreements are set out in the Company's prospectus dated 8 June 2011 (the "Prospectus") in the section headed "Contractual Arrangements".

As Jiangsu Xingyu, Jiangsu Xiangyu and other companies comprising the Group have been under common control of Mr. Liu since their respective establishment date, the Reorganisation including the execution of the Contractual Arrangements is considered as a business combination under common control. Accordingly, both Jiangsu Xingyu and Jiangsu Xiangyu 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.

The consolidated statement of comprehensive income, 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 periods presented or since their respective date of incorporation or establishment. The consolidated statement of financial position of the Group as at 31 December 2010 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at that date.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies applied in the preparation of the audited financial statements for the year ended 31 December 2011 are consistent with those adopted in last year.

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA:

Amendments to HKFRSs	Improvements to HKFRSs Issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised HKFRSs in the current year has had no material effect 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.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets[1]
	Disclosures — Offsetting Financial Assets and Financial Liabilities[4]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets[2]
HKAS 19 (as revised in 2011)	Employee Benefits[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[4]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[5]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2012.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2014.
6 Effective for annual periods beginning on or after 1 January 2015.

The Directors anticipated that the application of these new and revised HKFRSs will not have material impact on the results and financial position of the Group.

3. 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 that are used to make strategic decisions.

The Group has three operating and reportable segments, namely (i) Capital and Reclamation Dredging Business, (ii) Environment Protection Dredging and Water Management Business, and (iii) Dredging Related Construction Business. The segments are managed separately as each business offers different services and requires different marketing strategies.

Capital and Reclamation Dredging Business refers to the capital and reclamation dredging services and related consultation services provided by the Group.

Environmental Protection Dredging and Water Management Business refers to dredging or water management services or constructions of the Group for promoting environmental interests and water quality.

Dredging Related Construction Business refers to ancillary construction work related to the capital and reclamation dredging services provided by the Group.

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	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2011				
Segment revenue	**930,378**	**206,925**	**—**	**1,137,303**
Segment results	**401,562**	**26,981**	**—**	**428,543**
Other income				**44,088**
Unallocated corporate expenses				**(40,235)**
Listing expenses				**(11,786)**
Finance costs				**(4,880)**
Profit before tax				**415,730**
For the year ended 31 December 2010				
Segment revenue	362,766	—	12,117	374,883
Segment results	167,663	—	2,397	170,060
Bank interest income				26
Unallocated corporate expenses				(9,246)
Listing expenses				(21,531)
Finance costs				(3,640)
Profit before tax				135,669

Segment results represent the profit earned by each segment without allocation of central administrative costs and marketing and promotion expenses, other income and finance costs. This is the measure reported to the Company's executive Directors for the purposes of resource allocation and performance assessment.

Depreciation of property, plant and equipment has been included in the segment results of the Capital and Reclamation Dredging Business due to the related property, plant and equipment are used for this segment.

Geographical information

As all the Group's revenue is derived from its operation in the PRC, no geographical information is presented.

4. OTHER INCOME

	2011	2010
	RMB'000	*RMB'000*
Government financial incentive *(note)*	**43,100**	—
Bank interest income	**974**	26
Others	**14**	—
	44,088	26

Note: Pursuant to a document issued by a PRC local government authority, a PRC subsidiary was to be granted financial incentive for a period of 3 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.

In 2011, the PRC local government authority confirmed that the amount of such financial incentive the Group was entitled up to 31 December 2011 was RMB43,100,000. Accordingly, the Group has recognised such amount as other income for the current year (2010: Nil).

5. INCOME TAX EXPENSE

(i) Hong Kong Profits Tax

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

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profits for both years.

(ii) PRC Enterprise Income Tax

PRC Enterprise Income Tax is calculated at 25% of the assessable profits for both years.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2011	2010
	RMB'000	*RMB'000*
Profit before tax	**415,730**	135,669
Tax at the PRC Enterprise Income Tax rate of 25% (2010: 25%)	**103,933**	33,917
Tax effect of expenses not deductible for tax purpose	**8,633**	6,722
Tax charge for the year	**112,566**	40,639

6. PROFIT FOR THE YEAR

	2011	2010
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging:		
Auditors' remuneration	**3,240**	17
Depreciation of property, plant and equipment	**25,796**	11,618
Net foreign exchange losses	**10,409**	—

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	2011	2010
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to shareholders of the Company	**303,164**	95,030
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share ('000)	**706,849**	250,314

The weighted average number of shares for the purpose of basic earnings per share is calculated based on the number of shares issued, and also has taken into account the weighted average effect of the capital injection by Mr. Liu to the companies comprising the Group prior to the Reorganisation.

On 20 June 2011, the Company issued and allotted a total of 500,000,000 shares of HK$0.10 each to the shareholders whose names appeared on the Company's register of members on 24 May 2011 by capitalising an amount of HK$50,000,000 standing to the credit of the Company's share premium account which was created pursuant to the issue of a total of 200,000,000 new Shares of HK$0.10 each at an issue price of HK$3.19 per Share pursuant to the Prospectus (the "Capitalisation Issue").

The number of shares for the year ended 31 December 2010 and 2011 has also been adjusted for the effect of the Capitalisation Issue.

No diluted earnings per share is presented as there were no potential dilutive shares in issue.

8. DIVIDENDS

No dividend has been paid or declared by the Company or by its subsidiaries since the date of their incorporation or during the year ended 31 December 2011 (2010: nil).

9. TRADE AND OTHER RECEIVABLES

	2011	2010
	RMB'000	*RMB'000*
Trade receivables		
— non-current	**125,502**	—
— current	**551,174**	216,084
Less: Allowance on trade receivables	**—**	—
	676,676	216,084
Bills receivable	**—**	42,000
Deposits, prepayments and other receivables		
Government financial incentive receivables	**43,100**	—
Deposits and prepayments	**8,573**	12,431
Rental deposits for chartered dredgers with short term leases	**2,053**	2,073
Rental receivables	**300**	300
Retention receivables	**109**	6,224
Others	**2,931**	1,328
	57,066	22,356
	733,742	280,440

Included in the balance of trade receivables at 31 December 2011 was an amount of approximately RMB169,170,000 due from a government entity customer. The contract with this customer set out the repayment schedule of which RMB71,633,000 and RMB53,869,000 of the contract revenue are to be settled on the 13th and 25th month after completion of the contract work which is December 2011. Interest is payable by the customer on these amounts at the rate of 10% per annum. Accordingly, an amount of RMB125,502,000 of the trade receivable is classified as non-current.

The Group prepares an aged analysis for its trade receivables based on the dates when the Group and the customers agreed on the quantum of the services provided, as evidenced by progress certificates. Monthly statements are issued by the Group and agreed with the customers for the work performed and services rendered for the customers. Most of the contracts require the customers to make monthly progress payments with reference to the value of work completed (typically 70% to 80% of the value of work completed in the previous month) within thirty days after the issuance of the progress certificate each month. According to these contracts, the remaining balance (20% to 30% of the value of work completed) is to be paid by the customers within thirty to sixty days after the project is completed and the customers receive payment from the project owners.

The aged analysis of the Group's trade receivables (net of allowance on trade receivables) at the end of each reporting period is as follows:

Aged analysis of the Group's trade receivables

	2011	2010
	RMB'000	*RMB'000*
0–30 days	**227,560**	65,036
31–60 days	**54,303**	32,045
61–90 days	**56,583**	21,844
91–180 days	**236,719**	62,552
Over 180 days	**101,511**	34,607
	676,676	216,084

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits based on reputation of the customers within the industry.

The Group does not hold any collateral over the trade receivable balances which were past due but not impaired, but the management considers that no impairment loss needs to be recognised in view of the financial background of these customers and their historical and subsequent repayments. No allowance for doubtful debts was recognised by the Group during the year ended 31 December 2010 and 2011.

Retention receivables represent trade receivables retained by customers during the maintenance period which is normally less than one year from the completion of provision of services. The Group prepares an aged analysis for its retention receivables based on the date of the last monthly progress certificate of the project. The aged analysis of the Group's retention receivables at the end of each reporting period is as follows:

Aged analysis of the Group's retention receivables

	2011	2010
	RMB'000	*RMB'000*
61–90 days	**—**	22
91–180 days	**—**	1,323
Over 180 days	**109**	4,879
	109	6,224

10. TRADE AND OTHER PAYABLES

	2011	2010
	RMB'000	*RMB'000*
Trade payables	**80,697**	103,106
Other payable and accruals	**47,903**	17,990
Provision for repair and maintenance of dredgers	**3,100**	1,354
Receipts in advance	**2,467**	3,991
Others	**3,991**	1,237
	57,461	24,572
	138,158	127,678

The aged analysis of the Group's trade payables presented based on the invoice date as at the end of each reporting period is as follows:

	2011	2010
	RMB'000	*RMB'000*
0–30 days	**6,611**	22,730
31–60 days	**31,049**	13,042
61–90 days	**5,634**	11,081
91–180 days	**8,294**	16,507
Over 180 days	**29,109**	39,746
	80,697	103,106

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

The following summarized certain financial highlights of the Group for the year ended 31 December 2011:

- Revenue of about RMB1,137.3 million, representing a year-on-year increase of 203%.
- Consolidated net profit of the Group for the year ended 31 December 2011 was about RMB303.2 million, representing an increase of 219% as compared with 2010.
- During the financial year ended 31 December 2011, the Group obtained new dredging contracts and extension of existing contracts, which amounted to about RMB3 billion.

The Group has three reportable segments: (i) capital and reclamation dredging business, (ii) environmental protection dredging and water management business and (iii) dredging related construction business.

Revenue

During the year, the Group recorded a strong growth in revenue. Revenue for the year ended 31 December 2011 was about RMB1,137.3 million, representing an increase of about RMB762.4 million as compared with about RMB374.9 million in 2010. The revenue growth was primarily attributable to the increase in capital and reclaimed dredging activities in the PRC which led to increased demands for the Group's dredging services.

The Group's capital and reclamation dredging business ("Capital and Reclamation Dredging Business") refers to the capital and reclamation dredging services and related consultation services provided by the Group. It relates mainly to port construction and land building using sand, gravel or other dredged materials pumped from areas along or near seashore. The increase in turnover of the Capital and

Reclamation Dredging Business was from about RMB362.8 million in 2010 to about RMB930.4 million in 2011, which was mainly due to the increase in the total contract sums under dredging contracts.

The Group's environmental protection dredging and water management business ("Environmental Protection Dredging and Water Management Business") refers to dredging or water management services or constructions of the Group for promoting environmental interests and water quality. It relates mainly to the removal of contaminated sediment or pollutants from rivers, lakes or other water systems to improve water quality and restoring the aquatic ecosystem. The Group has commenced to record revenue from this segment from 2011.

The Group's dredging related construction business ("Dredging Related Construction Business") refers to ancillary construction work related to the capital and reclamation dredging services. The decrease in revenue in this segment was due to our focus on Capital and Reclamation Dredging Business and Environmental Protection Dredging and Water Management Business, which enjoy higher gross profit margin. The Group may take up contracts of Dredging Related Construction Business if they offer reasonable returns to the Group or benefit the Group as a whole.

Operating cost and gross profit

The Group's operating cost increased from about RMB204.8 million in 2010 to about RMB708.8 million in 2011, representing an increase of about 246%. The Group recorded a gross profit of about RMB428.5 million in 2011, represented a growth of about 152% from that in 2010 of about RMB170.1 million.

During the year, Capital and Reclamation Dredging Business remained as the major operating segment of the Group. The operating cost for this segment for 2011 amounted to approximately RMB528.8 million, representing an increase of about RMB333.7 million or 171% as compared with about RMB195.1 million in 2010. The increase in operating cost and gross profit of this segment is mainly attributable to the corresponding increase in operating revenue in the year and the increase in fuel cost.

The Environmental Protection Dredging and Water Management Business, which is new to the Group in 2011, recorded an operating cost of about RMB179.9 million, and such business yielded a gross profit margin of RMB27.0 million.

Marketing and promotion expenses

Marketing and promotion expenses for the year ended 31 December 2011 remained at a relatively low level of about 0.9% of the Group's revenue, represented an increase of 10 basis points from that of 2010 of about 0.8% of the Group's revenue. The increase was due to more marketing activities which took place in an attempt to obtain new contracts in the financial year under review.

Administrative expenses

Administrative expenses for the year ended 31 December 2011 were about RMB30.3 million, also remained at a relatively low level of about 2.7% of the Group's revenue, represented an increase of 100 basis points from that of 2010 of about 1.7% of the Group's revenue. The increase was mainly attributable to the increase in office expenses, audit and professional fees and staff costs.

Other income

Other income for the year ended 31 December 2011 amounted to about RMB44.1 million, representing an increase of about RMB44.09 million, from about RMB0.01 million for the year ended 31 December 2010, primarily attributable to financial incentive from the local government to support the growth of the Group recorded in 2011.

Income tax expense

Due to the increase in profit before tax as a result of the strong growth in revenue, income tax expense for the year ended 31 December 2011 amounted to about RMB112.6 million, representing an increase of about RMB72.0 million from about RMB40.6 million in 2010.

Listing expenses

One-off listing expenses were incurred for the Listing which took place from 2010 to 2011.

Profit for the year and earnings per share

Earnings per share is calculated based on profit for the year divided by the weighted average number of Shares. Consolidated net profit of the Group for the year ended 31 December 2011 was about RMB303.2 million, representing an increase of about RMB208.2 million from about RMB95.0 million in the year ended 31 December 2010. Should the one-off Listing expenses be excluded, the consolidated net profit of the Group for the year ended 31 December 2011 would be approximately RMB315.0 million.

For the purpose of calculating basic earnings per share, the weighted average number of Shares for 2010 was calculated as if the Capitalisation Issue (as defined in the financial statements) had taken place at the beginning of that year. Furthermore, it also took into account the capital injection made by Mr. Liu, the controlling shareholder (as defined under the Listing Rules) of the Company, to the Group in the second half of 2010 (details of which are set out in the Prospectus).

The increase in the earnings per share was due to the strong growth in net profit for the year of 2011.

LIQUIDITY AND FINANCIAL RESOURCES REVIEW

The Group has remained at healthy financial resource levels. As at 31 December 2011, the total equity of the Group amounted to about RMB1,230.0 million (2010: RMB436.2 million) and the Group's net current assets amount to about RMB399.1 million (2010: RMB59.6 million). The current ratio (current assets to current liabilities) as at 31 December 2011 was 2.2 (2010: 1.3).

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 as at 31 December 2011 totalling about RMB125.8 million (2010: RMB12.5 million). The increase in amount of overdue receivables as at 31 December 2011 did not cause significant impact on the Group's liquidity healthiness. Total liabilities of the Group as at 31 December 2011 were about RMB334.9 million (2010: RMB233.3 million). Out of these liabilities, total bank borrowings as at 31 December 2011 were about RMB25.0 million (2010: RMB40.0 million), and these were mainly used to finance the Group's working capital and other general corporate purposes. Such borrowings are at variable rates and denominated in Renminbi. All bank borrowings will mature within one year.

During the year under review, the Group has financed its operation by revenue generated from its operation, proceeds from the Listing, bank borrowings and other resources. The gearing ratio (which is calculated by the Group's bank borrowings divided by total assets) of the Group as at 31 December 2011 was 1.6% (2010: 6.0%). The decrease was mainly due to decrease in bank borrowings during the year. The Group considers its financial leverage is reasonable.

Listing proceeds

As disclosed in the Prospectus, the Company planned to apply about 80% of the net Listing proceeds for the purchase of dredgers and dredging equipment and 7% of the net Listing Proceeds for the improvement of its dredging equipments. As of 20 June 2011, 200,000,000 new Shares were issued at HK$3.19 per Share, resulting in a proceed from Listing amounted to HK$638 million. Net proceeds received by the Company after Listing commission amounted to approximately HK$608 million. Net proceeds after payment of all expenses related to Listing was about HK$579 million (RMB468.3 million). The Group then designated about RMB374.6 million for the acquisition of two dredgers and certain dredging equipment.

During the period from 20 June 2011, the date on which the Shares were listed on the Stock Exchange, to 31 December 2011, the Group acquired two dredgers at the aggregate purchase prices of about RMB341.5 million. Further, the Group has planned for improvement on the dredgers purchased, and the dredgers so purchased was in better condition as expected and lower costs were incurred. In addition, for some dredging equipments which were planned to be purchased by way of import, the Group (after reaching further agreement with a Swiss dredging equipment-manufacturer, which entered into an exclusive strategic alliance agreement with the Group as disclosed in the Company's announcement dated 1 August 2011) was authorised to manufacture such dredging equipments in the PRC at a lower cost. As a result, savings in the sum of about RMB60 million is expected to arise, as compared with the original budget.

The Board is now considering to allocate such savings to other uses to the benefit of the Group, and will make further disclosure of its detailed plan in future report(s) or announcement(s).

Charge over assets of the Group

As at 31 December 2011, there were no charge over the assets of the Group save for those created between Jiangsu Xingyu and Jiangsu Xiangyu, both being (or being treated as) wholly-owned subsidiaries of the Company (taking into account the Contractual Arrangements).

Capital commitments and contingent liabilities

Save for the conditional acquisitions of Jiangsu Jiaolong Salvage Harbour Engineering Co. Ltd* (江蘇蛟龍打撈航務工程有限公司) ("Jiangsu Jiaolong Salvage") (details of which are set out in the Company's announcements dated 19 September 2011, 3 January 2012 and 24 February 2012, respectively), as at 31 December 2011, the Group did not have significant capital commitments committed but not provided for (2010: RMB0.1 million in respect of office renovation).

As at 31 December 2011 and 2010, the Group did not have any material contingent liability.

BUSINESS REVIEW

2011 was an unforgettable year in the development history of the Group. The Company's shares first became listed on the Stock Exchange on 20 June 2011.

Overview

During the year, attributable to capital and reclamation dredging activities in the PRC, which led to increased demand for the Group's dredging services, the Group recorded a sparkling full year result as compared to 2010.

During the year, the Group achieved robustly in both financial and operational performance. For the capital and reclamation dredging projects, the Group remained as one of the most influential privately owned dredging contractors in the PRC. The Group continued to engage in several major dredging projects, including (1) Dalian Changxingdao Harbour project, (2) Tianjin Port project, (3) Jingtang Harbour project, and last but not least (4) Yandu Rivers project, one of the major projects in our Environmental Protection Dredging and Water Management Business. These dredging projects have contributed to a significant portion of the Group's total revenue, and are expected to have a huge sum of continual contribution to its future business.

On the other hand, the Group acquired two cutter suction dredgers with an aggregate consideration of around RMB342 million that boost our capacity to cope with its back-log orders on hand.

On 25 July 2011, the Group entered into an agreement with a Swiss equipment supplier for the establishment of an exclusive strategic alliance for a term of five years. Under the agreement, the Group is appointed as the exclusive agent/distributor of the equipment supplier in certain Asian territories, including the PRC for a series of de-watering and sludge processing equipment. These equipments include the world's first container-size mobile autonomous sludge processor. By entering into such alliance, the Group could effectively secure the availability of the de-hydration technology bring along with this equipment in the PRC exclusively.

On 19 September 2011, the Group entered into a series of agreements with independent third parties for the purpose of conditionally acquiring an effective 51% equity interest in Jiangsu Jiaolong Salvage. Jiangsu Jiaolong Salvage is principally engaged in the business of salvaging sunk objects and contractor of provision of engineering services for ports and channels and is recognized as one of the leading enterprises among domestic peers in China by China Diving and Salvage Industry Association* (中國潛水打撈行業協會). The acquisition would not only enable the Group to create synergy to its existing business, but also broadening the Group's income stream as well as customer stream.

Event after the Reporting Period

As announced by the Company on 24 February 2012, completion of the acquisition of 51% equity interest in Jiangsu Jiaolong Salvage took place on 20 February 2012.

OUTLOOK

Looking forward, the Group sees huge demand in the dredging industry in the PRC. There is an exponential growth in international trading activities in the PRC in recent years and coastal and inland river ports throughputs have also increased significantly. As one of the integral parts of port investments, the dredging industry is set to benefit substantially from the industry boom in the next five years, the Capital and Reclamation Dredging Business is expected to experience growth in this respect.

For the Environmental Protection Dredging and Water Management Business, according to the Ministry of Water Resources, there will be intensive investments in the next ten years in water resources and related projects, where the Group is expected to gain further business. We expect the proportion would keep increasing as an important global trend.

For the Dredging Related Construction Business, the Group will continue to seek contracts in this segment that offer reasonable returns to the Group.

The financial results we have achieved reflect both an increase in demand from the PRC dredging market and the effective implementation of our overall business strategy. This strategy is to ensure a continuing focus on the enhancement of the Group's capital and reclamation business, accompanied by the target market of environmental protection dredging in the PRC.

CORPORATE GOVERNANCE REPORT

In the opinion of the Directors, the Company has complied with the applicable code provisions in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules since the Listing of the shares on the Stock Exchange on 20 June 2011 and up to 31 December 2011.

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") with specific written terms of reference that have included the duties which are set out in CG Code provision C3.3 with appropriate modification when necessary.

The major roles and functions of the Audit Committee are to ensure the maintenance of proper relationship with the Company's auditor, the establishment of proper review and control arrangements relating to internal control systems, financial reporting and the compliance to applicable reporting requirements.

As at 31 December 2011, the Audit Committee comprised three independent non-executive Directors namely, Ms. Leung Mei Han (Chairman), Mr. Zhang Jun and Ms. Peng Cuihong.

The financial statements of the Group were audited by the Company's auditor and reviewed by the Audit Committee.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save as those steps taken out during the Group's Reorganisation to rationalise the Group's structure to prepare for listing of the Shares on the Stock Exchange and the initial pubic offering as set out in the Prospectus, 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 2011.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the financial year ended 31 December 2011 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Company's shareholders and published on the websites of the Stock Exchange (*www.hkex.com.hk*) and the Company (*www.xiangyu.com.hk*) in due course.

By order of the Board
Xiangyu Dredging Holdings Limited
Liu Kaijin
Joint chairman, executive Director
and chief executive officer

Hong Kong, 23 March 2012

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

* *For identification purpose only*