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 2012

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 2012, together with the audited comparative figures for the year ended 31 December 2011 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 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	4	**966,027**	1,137,303
Operating cost		**(636,613)**	(708,760)
Gross profit		**329,414**	428,543
Other income	5	**37,384**	44,088
Marketing and promotion expenses		**(15,230)**	(9,914)
Administrative expenses		**(38,707)**	(30,321)
Listing expenses		**—**	(11,786)
Finance costs		**(17,975)**	(4,880)
Profit before tax		**294,886**	415,730
Income tax expense	6	**(80,494)**	(112,566)
Consolidated net profit of the Group for the year and total comprehensive income for the year	7	**214,392**	303,164
Consolidated net profit of the Group for the year and total comprehensive income for the year attributable to:			
Owners of the Company		**199,495**	303,164
Non-controlling interests		**14,897**	—
		214,392	303,164
Earnings per share	8		
— basic (RMB)		**0.25**	0.43
— diluted (RMB)		**0.25**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,375,046**	705,225
Prepaid land lease payments		**92,800**	—
Goodwill		**201**	—
Deposit paid for acquisition of property, plant and equipment		**—**	150
Accounts receivable due after one year	*10*	**109,463**	125,502
		1,577,510	830,877
CURRENT ASSETS			
Prepaid land lease payments		**2,410**	—
Accounts and other receivables	*10*	**910,867**	608,240
Pledged bank deposits		**76,017**	—
Bank balances and cash		**30,395**	125,788
		1,019,689	734,028
CURRENT LIABILITIES			
Accounts and other payables	*11*	**382,925**	138,158
Amounts due to directors		**7,732**	60,321
Tax payable		**97,573**	111,445
Bank borrowings	*12*	**434,000**	25,000
Other borrowings		**33,236**	—
		955,466	334,924
NET CURRENT ASSETS		**64,223**	399,104
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,641,733**	1,229,981
CAPITAL AND RESERVES			
Share capital		**67,200**	67,200
Reserves		**1,389,148**	1,162,781
Equity attributable to owners of the Group		**1,456,348**	1,229,981
Non-controlling interests		**87,527**	—
TOTAL EQUITY		**1,543,875**	1,229,981
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests of a subsidiary		**76,002**	—
Deferred tax liabilities		**21,856**	—
		97,858	—
		1,641,733	1,229,981

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 (the "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 in 2011, the entities in the Group underwent a series of reorganisation steps to rationalise the group structure (the "Reorganisation"). As part of the Reorganisation, 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) ("Xiangyu PRC"), Mr. Liu Kaijin ("Mr. Liu") and Ms. Zhou Shuhua ("Ms. Zhou") entered into a series of agreements (the "Contractual Arrangements") on 19 April 2011. Details of the principal terms of the Contractual Arrangements are set out in the Company's prospectus dated 8 June 2011 (the "Prospectus") in the section headed "Contractual Arrangements".

As Jiangsu Xingyu, Xiangyu PRC 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 Xiangyu PRC 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 period presented or since their respective date of incorporation or establishment.

2. GOING CONCERN BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012, the Group had net current assets of approximately RMB64 million, accounts receivables in an aggregate amount of approximately RMB286 million which were classified as current assets at 31 December 2012 in the consolidated statement of financial position may not be fully settled in the next twelve months after the end of the reporting period as a result of subsequent agreements entered with the relevant debtors for extension of payment term and settlement through exchange of assets (as set out in note 14).

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 31 December 2012 were secured by the Group's assets and therefore highly probable that they can be renewed in the coming year; and (iii) the Group's unutilised banking facilities of RMB240 million as at 31 December 2012.

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 consolidated financial statements have been prepared on a going concern basis.

3. 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 2012 are consistent with those adopted in last year.

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA:

Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets
Amendments to HKFRS 7	Financial Instruments — Disclosures: Transfers of Financial Assets

Expect as described below, 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.

Amendments to HKFRS 7 "Financial Instruments — Disclosures: Transfers of Financial Assets"

The Group has applied for the first time the amendments to HKFRS 7 "Financial Instruments — Disclosures: Transfers of Financial Assets" in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred. The Group has arrangements with various suppliers to transfer its contractual rights to receive cash flows from certain bills receivable. The arrangements are made through endorsing those receivables to suppliers on a full recourse basis. Specifically, if the bills receivable are not paid at maturity, the suppliers have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bills receivable, it continues to recognise the full carrying amount of the receivables. The relevant disclosures have been made regarding the transfer of these bills receivable on application of the amendments to HKFRS 7. In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurements[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associate and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK-(SIC)-Int 13 "Jointly Controlled Entities — Non-monetary Contributions by Venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation. The Directors anticipate that the adoption of HKFRS 11 may affect the classification of joint arrangement of the Group should such designation be made in the future. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Other than those disclosed above, the Directors anticipated that the application of the other new and revised HKFRSs will not have a material impact on the results and financial position of the Group.

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

The Group used to have three reportable segments. In 2012, the Group has introduced a new segment, Other Marine Business, as a result of expansion of business operations and of the acquisition of 江蘇蛟龍打撈航務工程有限公司 (Jiangsu Jiaolong Salvage Harbour Engineering Co., Ltd.*, "Jiangsu Jiaolong"). Details of the Group's four reportable segments 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 work related to the capital and reclamation dredging services provided by the Group.

(iv) Other Marine Business mainly comprises marine hoisting, installation, salvaging 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 *RMB'000*	Environmental Protection Dredging and Water Management Business *RMB'000*	Dredging Related Construction Business *RMB'000*	Other Marine Business *RMB'000*	Total *RMB'000*
For the year ended 31 December 2012					
Segment revenue	**533,715**	**223,827**	**74,167**	**134,318**	**966,027**
Segment results	**193,673**	**70,503**	**7,642**	**43,065**	**314,883**
Other income					**35,386**
Unallocated corporate expenses					**(41,637)**
Finance costs					**(13,746)**
Group's profit before tax					**294,886**
Other information:					
Depreciation of property, plant and equipment	**33,410**	**4,750**	**2,185**	**15,864**	**56,209**
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)
Group's profit before tax					415,730
Other information:					
Depreciation of property, plant and equipment	24,575	1,221	—	—	25,796

Segment results, other than those derived from Other Marine Business, represent the gross profit earned by each segment without allocation of central administrative expenses, marketing and promotion expenses, listing expenses, other income and finance costs. For Other Marine Business, the segment result represents profit before tax earned by that segment. This is the measure reported to the Company's executive Directors for the purposes of resource allocation and performance assessment.

Segment assets

	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*
At 31 December 2012					
Segment assets	**1,513,250**	**402,654**	**16,857**	**458,754**	**2,391,515**
Unallocated assets:					
Prepaid land lease payments					**95,210**
Pledged bank deposits					**76,017**
Bank balances and cash					**30,395**
Other unallocated assets					**4,062**
Consolidated assets					**2,597,199**
At 31 December 2011					
Segment assets	1,264,344	169,320	—	—	1,433,664
Unallocated assets:					
Bank balances and cash					125,788
Other unallocated assets					5,453
Consolidated assets					1,564,905

For the purposes of monitoring segment performances and allocating resources between segments, assets are allocated to reportable and operating segments other than certain property, plant and equipment, prepaid land lease payments, certain other receivables, pledged bank deposits and bank balances and cash.

Segment liabilities

As the liabilities are regularly reviewed by the chief operating decision makers in total for the Group as a whole, the measure of total liabilities by operating segment is therefore not presented.

Geographical information

As all the Group's revenue is derived from its operation in the PRC and substantially all its assets (other than bank balances of approximately RMB569,000 as at 31 December 2012 (2011: RMB12 million) which were located in Hong Kong) and liabilities are located in the PRC, no geographical information is presented.

Information about major customers

An analysis of revenue from customers contributing to over 10% of the Group's total revenue for the year is as follows:

	2012	2011
	RMB'000	*RMB'000*
Customer A *(note)*		
— Capital and Reclamation Dredging Business	**325,205**	N/A
Customer B *(note)*		
— Capital and Reclamation Dredging Business	**N/A**	307,279
Customer C *(note)*		
— Capital and Reclamation Dredging Business	**N/A**	488,522
Customer D		
— Environmental Protection Dredging and Water Management Business	**141,252**	206,925

Note: Customer B and Customer C did not contribute over 10% of the Group's total revenue for the year ended 31 December 2012. Customer A was not a customer of the Group for the year ended 31 December 2011.

5. OTHER INCOME

	2012	2011
	RMB'000	*RMB'000*
Government financial incentive *(note)*	**17,105**	43,100
Bank interest income	**2,805**	974
Interest income in respect of non-current accounts receivable	**16,781**	—
Gain on disposal of property, plant and equipment	**46**	—
Sundry income	**647**	14
	37,384	44,088

Note: Pursuant to a document issued by a PRC local government authority, one of the Company's PRC subsidiaries was to be granted financial incentive for a period of three 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 year ended 31 December 2011.

Pursuant to a further document issued by the PRC local government authority in 2012, the Company's PRC subsidiary was eligible for the grant of the financial incentive for an extra of three years, provided it is duly registered in the locality and pays taxes according to tax laws.

In 2012, the PRC local government authority further confirmed that the amount of such financial incentive that the Group was entitled for the year ended 31 December 2012 was RMB17,105,000. Accordingly, the Group recognised such amount as other income for the year ended 31 December 2012.

6. INCOME TAX EXPENSE

	2012	2011
	RMB'000	*RMB'000*
The charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	**82,314**	112,566
Deferred taxation	**(1,820)**	—
	80,494	112,566

(i) PRC EIT

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

(ii) Hong Kong Profits Tax

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

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

7. PROFIT FOR THE YEAR

	2012	2011
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging:		
Auditor's remuneration	**2,430**	3,240
Depreciation of property, plant and equipment	**56,209**	25,796
Amortisation of prepaid land lease payments	**1,205**	—
Net foreign exchange losses *(note)*	**164**	10,409
Directors' emoluments	**6,595**	4,871
Share-based payment expense	**9,156**	—
Other staff costs	**37,856**	19,653
Retirement benefit scheme contributions, excluding those of Directors	**2,070**	568
Total staff costs	**55,677**	25,092
Sub-contracting charges included in operating cost	**330,178**	188,575

Note: The net foreign exchange loss for the year ended 31 December 2011 was mainly attributable to the translation of listing proceeds which were denominated in Hong Kong dollars.

8. 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:

	2012	2011
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**199,495**	303,164
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**800,000**	706,849
Effect of dilutive potential ordinary shares:		
Options	**173**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**800,173**	706,849

The weighted average number of Shares for the purpose of basic earnings per share for the year ended 31 December 2012 is calculated based on the number of Shares in issue during the year. The weighted average number of Shares for the year ended 31 December 2011 has been adjusted for (i) the weighted average for the year ended 31 December 2011 effect of capital injection by Mr. Liu to the companies comprising the Group prior to the Reorganisation; and (ii) the effect of the capitalisation issue taken place on 20 June 2011, on which 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.

9. DIVIDENDS

	2012	2011
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2012 Interim dividend of HK2 cents per Share (2011: nil)	**12,960**	—

The Directors do not recommend the payment of a final dividend for the years 2011 and 2012.

10. ACCOUNTS AND OTHER RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Accounts receivables:		
Non-current	**109,463**	125,502
Current	**860,041**	551,174
Less: Allowance on accounts receivables	**—**	—
	969,504	676,676
Bills receivable	**16,650**	—
Deposits, prepayments and other receivables:		
Government financial incentive receivables *(note 5)*	**17,105**	43,100
Deposits and prepayments	**13,131**	8,573
Retention receivables	**2,206**	109
Rental receivables	**—**	300
Rental deposits for chartered dredgers with short term leases	**—**	2,053
Others	**1,734**	2,931
	34,176	57,066
	1,020,330	733,742
Presented as:		
Accounts receivable due after one year	**109,463**	125,502
Accounts and other receivables due within one year	**910,867**	608,240
	1,020,330	733,742

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.

Long-term receivables represent amounts due from customers for contracts on certain construction works which are repayable over one year from the respective reporting dates. As at 31 December 2012, long-term receivables totalling RMB109,463,000 (2011: RMB125,502,000) were recognised according to the specific repayment terms in the contract. Interest is charged in respect of such non-current accounts receivable balance at a rate of 10% per annum. During the year, interest income of about RMB16,781,000 (2011: nil) was recognised.

The Group prepares an aged analysis for its accounts receivables based on the dates when the Group and the customers agreed on the quantum of the services provided, as evidenced by progress certificates. Periodic statements are issued and agreed by 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. 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 accepted the customers receive payment from the project owners.

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

	2012	2011
	RMB'000	*RMB'000*
0–30 days	**178,617**	227,560
31–60 days	**74,380**	54,303
61–90 days	**64,669**	56,583
91–180 days	**109,332**	236,719
Over 180 days	**542,506**	101,511
	969,504	676,676

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

	2012	2011
	RMB'000	*RMB'000*
0–30 days	**5,000**	—
31–60 days	**800**	—
61–90 days	**5,200**	—
91–180 days	**5,650**	—
	16,650	—

Retention receivables represent balance of accounts 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:

	2012	2011
	RMB'000	*RMB'000*
0–30 days	**1,072**	—
31–60 days	**269**	—
61–90 days	**—**	—
91–180 days	**756**	—
Over 180 days	**109**	109
	2,206	109

The Group does not hold any collateral over the above balances, 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. In reaching this conclusion, the Directors have also taken into account the transaction as set out in the Company's announcement dated 22 March 2013. No allowance for doubtful debts was recognised by the Group during the year ended 31 December 2011 and 2012.

11. ACCOUNTS AND OTHER PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Accounts payables:		
Subcontracting charge	**145,891**	35,714
Chartering cost	**2,120**	15,741
Fuel cost	**30,589**	9,244
Repair and maintenance	**16,862**	19,998
Others	**19,030**	—
	214,492	80,697
Bills payable	**84,000**	—
Other payables:		
Accrual other taxes	**52,038**	47,903
Accrual staff salaries and welfare	**19,379**	—
Provision for repair and maintenance of dredgers	**—**	3,100
Receipts in advance	**3,493**	2,467
Others	**9,523**	3,991
	84,433	57,461
	382,925	138,158

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

	2012	2011
	RMB'000	*RMB'000*
0–30 days	**158,787**	6,611
31–60 days	**13,930**	31,049
61–90 days	**9,056**	5,634
91–180 days	**4,806**	8,294
Over 180 days	**27,913**	29,109
	214,492	80,697

12. BANK BORROWINGS

During the current reporting period, the Group raised bank loans of RMB434,000,000 (2011: RMB215,900,000). The Group's bank borrowings were also increased by RMB57,995,000 through acquisition of a subsidiary. As at 31 December 2012, the Group's bank borrowings carried interest at fixed market interest rates ranging from 6.00% to 8.53% (2011: mainly carried interest at variable market interest rates ranging from 6.61% to 7.22%) per annum and with repayable on demand clause.

13. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the year, the Group paid rentals of RMB91,000 (2011: RMB91,000) to certain companies controlled by Mr. Liu in respect of office premises.

In 2012, Mr. Liu paid approximately RMB7,000,000 on behalf of the Group in respect of acquisition of prepaid land lease payments.

In 2011, Mr. Liu paid approximately RMB189,000 and approximately RMB1,366,000 on behalf of the Group in respect of PRC EIT payment and settlement of other payables respectively.

In addition, the Group received advances from, and made repayments to, Mr. Liu during the year ended 31 December 2012 and 2011. As at 31 December 2012, the amount due to Mr. Liu was RMB6,682,000 (2011: RMB60,233,000).

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

As at 31 December 2012, other than the 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.

As at 31 December 2011, the Group's bank borrowings were supported by:

(a) corporate guarantee given by Xiangyu PRC.

(iii) Pledge of the Group's assets in support of loans granted to Wangji

(a) On 7 September 2010, Wangji obtained a loan of HK$230 million from a financial institution. The collaterals of such loan were: (i) personal guarantee by Mr. Liu; (ii) pledge of the entire share capital of Wangji; (iii) pledge of the entire share capital of the Company; (iv) pledge of the entire share/registered capital of certain of the Company's subsidiaries; and (v) pledge of Xiangyu PRC's interest in two dredgers. On 28 September 2010, Wangji applied an amount of HK$200 million out of the above loan proceed to subscribe for an additional 10,000 shares in Power Wealth BVI. On 4 October 2010, 40% of the collaterals (ii) to (v) were released and reassigned to another financial institution for the purpose of securing another loan of HK$153 million obtained by Wangji on that same date as more described in note (b) below.

(b) On 4 October 2010, Wangji obtained a loan of HK$153 million from another financial institution. The collaterals of such loan were: (i) personal guarantee by Mr. Liu; (ii) pledge of the 40% of the share capital of Wangji; (iii) pledge of 40% of share capital of the Company; (iv) pledge of 40% of the entire share/registered capital of certain of the Company's subsidiaries; and (v) pledge of 40% of Xiangyu PRC's interest in two dredgers.

Collaterals (iii) to (v) as stated in (a) and (b) above were released during the year ended 31 December 2011.

14. EVENT AFTER THE REPORTING PERIOD

As mentioned in an announcement by the Company dated 31 December 2012, the Group entered into a conditional agreement with one of its major trade debtors (the "Debtor") whereby the Debtor would transfer its (i) 95% equity interest in a company established in the PRC (the "TargetCo"), the sole asset of which is two pieces of land in the PRC and (ii) its shareholder's loan therein, in lieu of settlement for certain trade debts due to the Group (the "1st Agreement"). The amount of such trade debts to be settled in this manner is RMB288,293,000 (comprising current portion of RMB251,798,000 and non-current portion of RMB36,495,000) as determined with reference to the adjusted net assets value of the TargetCo based on a valuation report by 江蘇仁和資產評估有限公司, a registered valuation firm in the PRC which is independent to the Group.

Concurrent with the above arrangement, the Group also entered into another conditional agreement to acquire the remaining 5% equity interest in the TargetCo from the non-controlling interest holder therein for a consideration of RMB400,000 (the "2nd Agreement").

On 22 March 2013, the Group entered into a conditional sale and purchase agreement with an independent third party (the "Third Party") whereby the Group has agreed to transfer to the Third Party its 85% equity interest in the TargetCo together with the 85% of shareholder's loan for a total consideration of approximately RMB253 million (the "3rd Agreement"), to be settled in the following manner:

(i) deposit of RMB10 million within three days of signing of the 3rd Agreement;

(ii) payment of not less than RMB70 million (not including the deposit) before 31 December 2013;

(iii) payment of not less than RMB100 million during the year ending 31 December 2014; and

(iv) payment of any outstanding balance before 31 December 2015.

Interest is payable by the Third Party to the Group at a rate of 6% per annum on the amount of unpaid balance starting from 1 January 2014.

As at the date that these consolidated financial statements are approved by the Directors, the above transactions have not been completed.

DIVIDEND

On 13 August 2012, the Directors have resolved to declare an interim dividend of HK2 cents per share. The Directors do not recommend the payment of any final dividend for the year ended 2012 (2011: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

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 year, the Group recorded a drop in total revenue. The total revenue for the year ended 31 December 2012 was about RMB966.0 million, representing a decrease of about 15.1% as compared with about RMB1,137.3 million in the year 2011. As regards the CRD Business segment and EPD and Water Management Business segment, the respective revenues generated during the year ended 31 December 2012 were about RMB533.7 million and about RMB223.8 million which represented a decrease of about 42.6% and increase of about 8.2% respectively from the corresponding segments' revenue in the year ended 31 December 2011. The decrease in revenue of CRD Business segment was mainly due to the slow-down of construction progress of certain projects. Revenue from EPD and Water Management Business segment increased in 2012 because the Group started to generate revenue from this segment since late 2011.

During the year, the Group was awarded a sizeable contract in the Dredging Related Construction Business with reasonable return. As a result, the Group recorded revenue of about RMB74.2 million in this segment for the year ended 31 December 2012. No revenue was recorded in this business segment during the year ended 31 December 2011.

Further, subsequent to the completion of the acquisition of Jiangsu Jiaolong in February 2012, the Group has expanded into a new business segment (namely, Other Marine Business) that contributed revenue of about RMB134.3 million to the Group for the year 2012.

Operating Cost and Gross Profit

The Group's operating cost decreased from about RMB708.8 million for the year ended 31 December 2011 to about RMB636.6 million for the year ended 31 December 2012, representing a decrease of about 10.2%. The Group recorded a gross profit of about RMB329.4 million for the year ended 31 December 2012, representing a decrease of 23.1% as compared with the year ended 31 December 2011 of about RMB428.5 million.

The gross profit margin of CRD Business dropped from about 43.2% for the year ended 31 December 2011 to about 36.3% for the year ended 31 December 2012 as a result of the diversification to new projects that required equipment which was not owned by the Group, hence bringing about an increase in use of sub-contractors.

The gross profit margin of EPD and Water Management Business increased from about 13.0% for the year ended 31 December 2011 to about 31.5% for the year ended 31 December 2012 as relatively higher start-up costs were incurred in 2011.

The Group's new business segment (namely, Other Marine Business) was operated at a strong profit margin of about 32.1% during the year ended 31 December 2012 while 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.

Other Income

The Group obtained incentive payment from local PRC government to support the growth of the Group. Other income decreased by about RMB6.7 million to about RMB37.4 million for the year ended 31 December 2012 which was mainly due to the decrease in such incentive income.

Marketing and Promotion Expenses

Marketing and promotion expenses increased by about RMB5.3 million to about RMB15.2 million for the year ended 31 December 2012 due to the increase in marketing activities in the year in order to expand the Group's customer bases.

Administrative Expenses

Administrative expenses for the year ended 31 December 2012 amounted to about RMB38.7 million which included the share-based payment expense which were related to share options granted in March and May 2012 amounted to about RMB9.2 million. Administrative expenses excluding such one-off expense for the year ended 31 December 2012 was about RMB29.5 million, representing a slight decrease of about RMB0.8 million as compared to about RMB30.3 million for the year ended 31 December 2011.

Income Tax Expense

Due to the decrease in profit before tax, income tax expense for the year ended 31 December 2012 amounted to about RMB80.5 million, representing a decrease of about RMB32.1 million compared with the year 2011.

Profit for the Year

As a combination effect of the above, the profit for the year decreased by about 29.3% from about RMB303.2 million for the year ended 31 December 2011 to about RMB214.4 million for the year ended 31 December 2012.

Earnings Per Share

Earnings per Share decreased by about 41.9% from RMB0.43 per Share in 2011 to RMB0.25 per Share in 2012. Apart from the decrease in profit for the year, the decrease was also due to the difference in weighted average number of Shares between 2011 and 2012.

The Company was listed in June 2011 and the new Shares issued upon listing only account for the calculation of the weighted average number of Shares from the date of listing to 31 December 2011. As a result, although there was no change in the share capital structure of the Company since it was listed, the weighted average number of Shares for the year ended 31 December 2011 was smaller than the weighted average number of Shares for the year ended 31 December 2012.

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.

Financial Position

As at 31 December 2012, total equity of the Group amounted to about RMB1,543.9 million (2011: RMB1,230.0 million). The increase was mainly due to net profit for the year of 2012.

The Group's net current assets as at 31 December 2012 amounted to about RMB64.2 million (2011: RMB399.1 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 31 December 2012 was 1.07 (2011: 2.19). The decreases in both the Group's net current assets and current ratio were mainly due to the Group's acquisition of property, plant and equipment and operation of built-and-transfer projects (the accounts receivables therefrom will be repayable by instalments in three years) which were mainly financed by the Group's own liquid funds and short term bank loans.

Liquidity and Financial Resources

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 totalling about RMB106.4 million as at 31 December 2012, representing a decrease of about RMB19.4 million as compared with about RMB125.8 million as at 31 December 2011.

Due to the tightening of economic environment in the PRC since late 2011, the Group's projects were unavoidably affected. It slowed down the receivables collection and construction progress. The Group's accounts receivables as at 31 December 2012 amounted to about RMB969.5 million (2011: RMB676.7 million).

Included in such receivables, about RMB328.3 million was due from a state-owned enterprise customer, out of which about RMB98.9 million was construction works receivable already overdue and about RMB16.8 million was interest due and payable. Apart from these, the remainder receivables stand about RMB212.6 million and they shall be payable in 2013 and 2014.

On 31 December 2012, the Group entered into a conditional agreement with this customer, pursuant to which the Group agreed to acquire from this customer 95% equity interests in its subsidiary (the "TargetCo") and all shareholder's loan owing by the TargetCo for an aggregate consideration of about RMB288.3 million, subject to fulfillment of certain conditions precedent to completion. The only assets of the TargetCo are two pieces of land and the consideration for the said acquisition shall be settled by way of setting off against the receivable from this customer at the amount equivalent to the said consideration. At the same time, the Group also entered into another conditional agreement with the 5% minority equity interest owner of the TargetCo for acquiring of the remaining 5% equity interest at RMB0.4 million. Please refer to the Company's announcements dated 31 December 2012 and 2 January 2013 for further details.

On 22 March 2013, the Group entered into another agreement with an independent third party (the "Third Party") whereby the Group has agreed to transfer to the Third Party 85% equity interest (and the same proportion of shareholder's loan) held by the Group in the TargetCo for a total consideration of approximately RMB253.0 million (the "3rd Agreement"), to be settled in the following manner:

(i) deposit of RMB10 million within 3 days of signing of the 3rd Agreement;
(ii) payment of not less than RMB70 million (not including the deposit) before 31 December 2013;
(iii) payment of not less than RMB100 million during the year ending 31 December 2014; and
(iv) payment of any outstanding balance before 31 December 2015.

Interest is payable by the Third Party to the Group at the rate of 6% per annum on the amount remained unpaid starting from 1 January 2014. Please refer to the Company's announcement dated 22 March 2013 for further details.

Though the Group did not have any collateral over the receivables, the management considered that there is no recoverability problem as to its receivables as the remaining amounts were mainly due from reputable enterprises. The increase in amount of overdue receivables as at 31 December 2012 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 year.

In order to minimize the risk of placing heavy reliance on entering into collaboration with government projects and to further diversify the overall credit risk, the Group has been widening its customer base to sizable PRC private enterprises since 2012.

Total liabilities of the Group as at 31 December 2012 were about RMB1,053.3 million (2011: RMB334.9 million). The increase mainly represented increase in bank loans of about RMB409.0 million, all of which are denominated in Renminbi and will mature within one year and all are at fixed interest rates. The Group's gearing ratio (calculated by bank borrowings divided by total assets) increased to a level of 16.7% (2011: 1.6%), which the Board believes is at a healthy level.

Charge Over Assets of the Group

As at 31 December 2012, the Group's bank borrowings are secured by pledged bank deposits of about RMB76.0 million, charges over certain dredgers and land owned by the Group; 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.

Material Acquisitions and Disposals

Apart from those discussed above in this announcement, the Group completed the acquisition of Jiangsu Jiaolong in February 2012. In addition, it acquired a piece of land and a high-powered dredger in May 2012 and September 2012, details of which were set out in the Company's announcements dated 8 May 2012 and 27 September 2012 respectively.

During the year, the Group also entered into legally binding framework agreement 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. Please refer to the Company's announcement dated 21 October 2012 for further details.

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 any significant capital commitments committed but not provided for as at 31 December 2012.

Capital commitment as at 31 December 2011 mainly represented the acquisition costs of Jiangsu Jiaolong.

As at 31 December 2012, the Group did not have any material contingent liability (2011: nil).

Event After End of Reporting Period

On 22 March 2013, the Group entered into a conditional sale and purchase agreement to dispose its 85% of the TargetCo, details of which are set out in the paragraph headed "Liquidity and Financial Resources" in this announcement.

Listing Proceeds

As of 20 June 2011, 200,000,000 new Shares were issued at HK$3.19 per Share, resulting in gross proceeds from Listing which amounted to HK$638.0 million. Net proceeds after payment of all expenses related to listing was about HK$579.0 million (RMB468.3 million). Up to 31 December 2012, all proceeds were used in the manner as stated in the Prospectus, and as subsequently disclosed in the Company's announcement dated 8 May 2012.

Employees and Remuneration Policy

As at 31 December 2012, the Group had a workforce of 606 employees (2011: 211). The increase in number of employees was due to the completion of acquisition of Jiangsu Jiaolong (which has since then been consolidated as a subsidiary of the Company) in 2012. Total staff cost for the year ended 31 December 2012 was about RMB55.7 million (2011: RMB25.1 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 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).

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

Business Review

If 2011 was the year of incubation, 2012 would be the year of implementation. In spite of the high uncertainties in the PRC economy, the Group continued to make significant moves in this year: the completion of the acquisition of Jiangsu Jiaolong led the Group to start a new profitable segment in Other Marine Business; the Group's success in the trial project in Wuhan, Hubei Province, the PRC has opened up the robust market in the environmental protection dredging business; and the strategic move of the Group's head quarter enable it to be eligible to the local government incentive grant for further three years.

However, things always take time to grow. It is the fact that the Group is not immune to the domestic economic slow-down and the severe downturn of global economy that hampered the development of the dredging industry in 2012. As a result, the Group recorded a total revenue of approximately RMB966.0 million for the year, decreased by 15.1% as compared to corresponding period of last year. Gross profit of the Group for the year was approximately RMB329.4 million, representing a decline of 23.1% from last year. Profit attributable to Shareholders for the year amounted to approximately RMB199.5 million.

To cope with market slow-down, the Company has adjusted the yearly marketing strategy to diversify the risk of customer concentration by developing to reputable enterprises in the private sector. During the year, the Group secured orders with a total value of approximately RMB800 million from a private enterprise in Shandong Province, the PRC. Meanwhile, it also strives to build long-term relationships not only with customers and also potential customers by enhancing the mutual communications, aiming to capture the future development of the emerging market in environmental protection dredging as well as the recovery of the conventional market.

With the solid foundation the Group has all along laid for the environmental protection dredging market, by securing an order of about RMB100 million, the Group successfully opened up the environmental protection dredging market in Hunan Province, the PRC, a market that is seen to have a bright future. The Company believes that the prospects for securing orders in the pipeline for the next two years are promising.

In spite of recording a decrease in the net profit as a result of the industry downturn and the operational difficulties such as impacts of unexpected weather, geographical conditions, the Group continues to preserve its operating efficiency and equipment utilization rate to ensure its profitability.

During the year, the Company acquired a high-powered dredger "Kaijin No. 18*" (開進18號) to enhance its dredging capacity. It also took a step forward in its research and development of dehydration equipment for environmental protection dredging, which has achieved technical breakthroughs with encouraging results. As for the salvage and lifting business segment, "Qinhanggong No. 1*" (秦航工一號) — a new large lift-on-lift-off ship successfully launched its maiden voyage. It is believed that by continuously optimised its production processes and improvement and maintenance of key production equipment, production efficiency could be improved.

Outlook

Looking forward, the environment protection policies and planned investments in water conservancy projects contemplated in the "Twelfth Five-Year Plan" will bring demands both in medium term and in the long run that provide a significant boost to the industry. The Group also sees robust demands in the overseas markets especially in Southeast Asia where the Group will actively explore opportunities. The management is confident that the prospect of the dredging industry is promising.

CORPORATE GOVERNANCE REPORT

The Group has applied the principles and adopted all code provisions, where applicable, of the code provisions as contained in "Corporate Governance Code and Corporate Governance Report" set out in Appendix 14 to the Listing Rules as the Group's own code of corporate governance ("CG Code"). The Directors consider that the Company has complied with all applicable code provisions under the above code on Corporate Governance Practices (formerly set out in Appendix 14 to the Listing Rules) for the period from 1 January 2012 to 31 March 2012 and CG Code (the new amended version of the code on Corporate Governance Practices as set out in Appendix 14 to the Listing rules) for the period from 1 April 2012 to 31 December 2012 except Code Provision A.6.7 of the CG Code. Pursuant to such Code Provision, among others, the independent non-executive Directors should attend general meetings. However, certain independent non-executive Directors were absent from the general meetings held during the year due to other engagements. To ensure compliance in the future, the Company will take all reasonable measures to arrange the schedule in such a cautious way that all Directors (including the independent non-executive Directors) can attend the general meetings.

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 C.3.3 with appropriate modification when necessary.

The major roles and functions of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the auditor of the Group. Regular meetings would be held by the Audit Committee according to its term of reference.

As at 31 December 2012, the Audit Committee comprised four independent non-executive Directors namely, Ms. Leung Mei Han (Chairman), Ms. Peng Cuihong, Mr. Huan Xuedong and Mr. Chan Ming Sun, Jonathan.

The financial statements of the Group for the year ended 31 December 2012 were audited by the Company's auditor and reviewed by the Audit Committee.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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 2012.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the financial year ended 31 December 2012 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the Company's shareholders and published on the respective 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, 26 March 2013

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. Liu Longhua as a non-executive Director and joint chairman; and Ms. Leung Mei Han, Ms. Peng Cuihong, Mr. Huan Xuedong and Mr. Chan Ming Sun, Jonathan as independent non-executive Directors.

* *For identification purpose only*