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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)

PROPOSED ISSUE AND SUBSCRIPTION OF AN AGGREGATE OF HK\$243 MILLION THREE PER CENT. (3%) CONVERTIBLE BONDS DUE 2016 UNDER GENERAL MANDATE

On 28 October 2013 (after trading hours), the Company entered into the Agreement with the Subscriber which is an Independent Third Party. Pursuant to the Agreement, the Company has agreed to issue and the Subscriber has agreed to subscribe (or procure its nominee (which shall be an affiliate of the Subscriber) to subscribe) for the Bonds whose aggregate principal amounts are HK\$243 million. The Bonds are convertible into new ordinary shares of HK\$0.10 each in the Company at the initial Conversion Price of HK\$2.70 per Conversion Share and on the terms summarised below in this announcement.

If the Conversion Rights attached to the Bonds are exercised in full at the Conversion Price (assuming no occurrence of any event upon which the Conversion Price shall be adjusted), the Subscriber will (by acquiring 90 million Conversion Shares through the exercise of the Conversion Rights attached to the Bonds) become interested in 90 million Shares, representing about 10.11% of the Company's issued share capital as enlarged by the issue of such Conversion Shares. A summary of the adjustment of the Conversion Price is set out in this announcement below.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued upon exercise of the Conversion Rights attached to the Bonds.

The Shares will, upon exercise (if so exercised) of the Conversion Rights attached to the Bonds, be allotted and issued pursuant to the General Mandate granted to the Directors at the annual general meeting of the Company held on 29 May 2013. The Directors have not, prior to the date of the Agreement, exercised any of their powers conferred by the General Mandate. The Subscriber is not an existing beneficial owner of any Shares or is interested in any Shares.

Subject to completion of the Agreement, the estimated net proceeds expected to be raised from the issue of the Bonds is approximately HK\$242 million, after deducting professional fees and all related expenses. The Company will use the estimated net proceeds for capital expenditures, repayment of bank borrowings and working capital purposes.

The subscription by the Subscriber for the Bonds is conditional upon the fulfillment of the conditions set out under the section headed “Conditions precedent to completion of the Agreement” below.

The terms of the Agreement were arrived at after arm’s length negotiations. The Directors consider those terms to be fair and reasonable and in the interests of the Company and its shareholders as a whole.

PROPOSED ISSUE OF THE HK\$243 MILLION THREE PER CENT. (3%) CONVERTIBLE BONDS DUE 2016

The Agreement

Date : 28 October 2013 (entered into after trading hours)

Issuer : The Company

Subscriber : The Subscriber, namely, CITIC Capital China Access Fund Limited

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, each of the Subscriber and its ultimate beneficial owners is an Independent Third Party and does not hold any position with the Company or its connected persons (as defined in the Listing Rules).

Amount of Bonds to be subscribed : Subject to fulfillment of the conditions set out below under the paragraph headed “Conditions precedent to completion of the Agreement”, the Subscriber has agreed to subscribe (or procure its nominee (which shall be an affiliate of the Subscriber) to subscribe) for the Bonds with the principal amount of HK\$243 million.

Conditions precedent to completion of the Agreement

Completion of the Agreement is conditional upon the following Closing Conditions being satisfied (or, where applicable, waived (to the extent waivable)):

- (1) no order or judgment of any court or governmental, statutory or regulatory body having been issued or made prior to completion of the Agreement, and no legal or regulatory requirements remaining to be satisfied which has the effect of making unlawful or otherwise prohibiting the subscription for the Bonds by the Subscriber or any transaction contemplated by the Agreement;
- (2) the Stock Exchange having granted listing of and permission to deal in the Shares to be issued upon the exercise of Conversion Rights and such approval remaining valid and effective;
- (3) each of the warranties given by the Company in the Agreement remaining true and accurate in all material respects and not misleading in each case in accordance with their terms;
- (4) all requisite consents or confirmations of no objection (if necessary) or filings at, any governmental or competent authorities for the transactions contemplated under the Agreement having been obtained by the Company from any third parties or effected by the Company;
- (5) there being no event existing or having occurred and no condition being in existence which would (had any Bonds already been issued) constitute an event of default (as set out in the Bond Conditions);
- (6) there has been no material breach by the Company of any provision contained in the Agreement;
- (7) since the date of the Agreement, there shall not have occurred any material adverse change;
- (8) the Shares remaining listed and traded on the Main Board of the Stock Exchange;
- (9) there has not been a suspension of trading of the Shares by the Stock Exchange for three (3) consecutive Business Days or more occurring after the date of the Agreement;
- (10) there has not been an insolvency event in respect of any Group company; and
- (11) there has not been the adoption of any law (other than a law which has been announced before the date of the Agreement) or a change in the interpretation or application of a law which, in the reasonable opinion of the Subscriber, prohibits or restricts the issuance of the Bonds, capital issues of the Bonds and/or the Conversion Shares or the transfer thereof.

Under the Agreement, Closing Conditions (1) and (2) are not waivable by either party to the Agreement, and all other Closing Conditions may be waived by the Subscriber.

If any of the Closing Conditions is not satisfied or waived (to the extent waivable) by the Subscriber on the Long Stop Date or such other date as the Company and the Subscriber shall agree in writing, the Agreement shall terminate.

Completion of the Agreement

Completion of the Agreement will take place on the third Business Day after the last of the Closing Conditions is fulfilled or (as the case may be) waived.

Principal terms of the Bonds

The principal terms of the Bonds were determined after arm's length negotiations between the Company and the Subscriber and are summarized below:

- Principal amount : HK\$243 million
- Interest : three per cent. (3%) per annum payable by the Company on the last Business Day before expiry of every six months since the date of issue of the Bonds and thereafter and on the Maturity Date (each an “**Interest Payment Date**”).
- Maturity Date : the third anniversary of the date of issue of the Bonds
- Conversion Period : The Bonds are convertible in whole (or in integral multiples of HK\$40.5 million of the principal amount of the Bonds) into new Shares at any time from the day falling six months from the date of issue of the Bonds up to the Maturity Date at the Conversion Price, subject to and upon compliance with, the provisions of the Bond Conditions of the Bonds. Any conversion shall be made in amounts of not less than a whole multiple of HK\$40.5 million and no fraction of a Share shall be issued on conversion.
- Conversion Price : The initial Conversion Price of HK\$2.70 per Share (subject to adjustment for anti-dilution events as mentioned below), at which each Conversion Share shall be issued upon exercise of the Conversion Right, was arrived at after arm's length negotiations between the relevant parties and with reference to the market price of the Shares. The initial Conversion Price represents:
- (a) a premium of about 39.18% over the closing price of HK\$1.94 per Share as quoted on the Stock Exchange on 28 October 2013, being the Date of the Agreement; and
 - (b) a premium of about 35.68% over the average closing price of the Shares of HK\$1.99 per Share for the 10 consecutive trading-day period ended on the Date of the Agreement (inclusive).

The Bond Conditions contain provisions concerning adjustment to the Conversion Price in respect of events which have a diluting effect on the issued share capital of the Company. The Conversion Price will be adjusted in the event of an alteration of the capital restructure of the Company or upon the occurrence of certain adjustment events. These adjustment events include, among others, consolidation, sub-division or reclassification, bonus issue, Distribution, rights issue of options over Shares, rights issue of other securities, issue at less than the then current market price, other issue at less than the then current market price, modification of right of conversion, other offer to shareholders, and other events. Where any such event occurs, the Conversion Price may be subject to the adjustment in accordance with the Bond Conditions, with a key objective that any dilution effect on the value of the Bonds arising from such events will be neutralized.

If the Company shall distribute any Distribution to the Shareholders during the Conversion Period, the Bondholders appearing on the register as at the record date for such Distribution shall be entitled to receive an amount equal to such Distribution as if they had each exercised their Conversion Right in full immediately prior to the record date for such Distribution, provided that any Bondholder may elect not to receive such Distribution, in which case the Conversion Price shall be adjusted in accordance with the Bond Conditions.

- Conversion Shares : The Conversion Shares will be issued free from any encumbrances or third party rights of any kind and will rank *pari passu* in all respects with the then existing issued Shares together with all rights to dividends and other distributions declared, made or paid on or after the date of the exercise of the Conversion Right.
- Final redemption and repayment : Unless previously redeemed or converted or purchased and cancelled as provided in the Agreement, the Company is obliged to make redemption, in cash, of the outstanding principal amount of the Bonds at the redemption amount which is equal to 133.792% of the principal amount of the outstanding Bonds on the Maturity Date.
- Purchase of the Bonds : The Company or any of its subsidiaries may at any time and from time to time purchase Bonds at any price as agreed between the Company or such subsidiary and the Bondholder. Any purchase by tender shall be made available to all Bondholder(s) alike.

Bondholder(s)' redemption rights : Following the occurrence of an event of default (as set out in the Bond Conditions), the Bondholder(s) will have the right at their sole option, to require the Company to redeem all but not only some of the Bonds on the Redemption Date at the amount (“**Default Redemption Amount**”) determined in accordance with the formula below:

$$\text{Default Redemption Amount} = \{(\text{Redemption Principal}) \times (1 + r)^{(d/p)}\} \\ \text{less the amount of interest fully and} \\ \text{duly paid to the Bondholder(s) on} \\ \text{each Interest Payment Date}$$

where:

Redemption Principal = the aggregate amount of the Bonds to be redeemed

r = 13%

d = number of days from and including the date of first issue of the Bonds, to, but excluding, the Redemption Date, calculated on the basis of the actual number of days elapsed and a 365-day calendar year

p = 365

Cancellation of the Bonds : All Bonds which are redeemed or purchased by the Group, or which are converted into Shares by the Bondholders, will forthwith be cancelled and such Bonds may not be reissued or resold.

Voting : The Bondholder shall not be entitled to receive notice of, attend or vote at any general meeting of the Company by reason only of his being a Bondholder.

Nomination of Director : Following completion of the Agreement, the Bondholders as a whole may nominate one candidate to the board of directors of the Company during the period of not more than three years commencing from the date of such completion, and when the aggregate shareholdings of the initial Bondholders represent no less than 9% of the total number of issued shares in the Company at the relevant time.

- Transferability : No assignment or transfer of the Bonds (or part thereof) may be made without the prior written consent of the Company for so long as the Bonds have not been converted into Conversion Shares or redeemed by the Company pursuant to the Bond Conditions provided, however, that a Bondholder may transfer some or all of the Bonds to any of its affiliates (as defined in the Agreement).
- Events of default : If any event of default occurs, the Bondholder is entitled to require the Company to redeem the outstanding Bonds, in cash. Upon any such notice being given to the Company, the Bonds will immediately become due and repayable on the Redemption Date at such amount as set out in the subparagraph headed “Bondholder(s)’ redemption rights” above.

Reasons for the issue of the Bonds

The Directors consider that the issue of the Bonds will provide strong capital support for the development of the Group’s business, in particular the environmental protection dredging business, enhance the Group’s market presence and competitiveness and strengthen the Group’s capital base effectively after full conversion of the Bonds. As the Subscriber was a reputable private investment fund, the proposed issue of the Bonds to the Subscriber presented a valuable opportunity to invite such private investment fund to become a strategic investor of the Company.

The Directors consider that the issue of the Bonds is an appropriate means of raising funds since it will not have an immediate dilution effect on the shareholding of the existing Shareholders and the interest payable under the Bonds is more stable and predictable than bank borrowings.

The Directors consider that the terms of the Agreement, which were arrived at after arm’s length negotiations between the Company and the Subscriber, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Release of and use of proceeds

The net proceeds to be raised from the issue of the Bonds are estimated to be about HK\$242 million, after deducting professional fees and all related expenses. The Company plans to use such proceeds for capital expenditures, repayment of bank borrowings and working capital purposes.

Based on the estimate net proceeds of HK\$242 million and the 90 million Shares which may fall to be issued upon conversion in full of the Bonds at the Conversion Price, the net price of the Company for each Conversion Share is about HK\$2.69.

Impact on the shareholding structure of the Company as a result of conversion of the Bonds

As at the date of this announcement, there are a total of 800 million Shares in issue. In addition, as at the date of the Agreement, there are certain outstanding share options, which are held by directors and/or employees or consultants of the Group, upon exercise thereof a total of 73.6 million Shares may be issued, which options were granted pursuant to the share option scheme of the Company, which is subject to Chapter 17 of the Listing Rules. Other than the share options granted under the share option scheme of the Company which is subject to Chapter 17 of the Listing Rules, there are no outstanding convertible securities of the Company as at the date of this announcement.

If the Conversion Rights attached to the Bonds are exercised in full at the Conversion Price (assuming no adjustment to the Conversion Price), the Subscriber will become interested in 90 million Shares, representing about 10.11% of the Company's issued share capital as enlarged by the issue of all the Conversion Shares.

The following table summarises (i) the Company's existing shareholding structure, (ii) the shareholding structure assuming and immediately after issue of Shares to the Subscriber upon its exercise of the Conversion Rights attached to the Bonds in full (based on the existing shareholding structure) at the Conversion Price:

	Existing shareholdings		Assuming full conversion of the Bonds	
	<i>No. of Shares</i>	<i>(approximate) %</i>	<i>No. of Shares</i>	<i>(approximate) %</i>
Directors or their associates:				
Wangji Limited (<i>Note</i>)	325,100,000	40.64	325,100,000	36.53
Liu Kaijin	10,653,000	1.33	10,653,000	1.12
Subscriber:	0	0	90,000,000	10.11
Other public Shareholders:	<u>464,247,000</u>	<u>58.03</u>	<u>464,247,000</u>	<u>52.16</u>
Total:	<u><u>800,000,000</u></u>	<u><u>100.00</u></u>	<u><u>890,000,000</u></u>	<u><u>100.00</u></u>

Note: Mr. Liu Kaijin is the sole beneficial owner of Wangji Limited.

So far as the Directors are aware, the Company has, up to the date of this announcement, been at all times in compliance with the public float requirement.

Application for listing

No application will be made for the listing of, or permission to deal in, the Bonds on the Stock Exchange or any other stock exchange. The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares which may fall to be issued pursuant to the Bonds.

General Mandate

The new Shares to be allotted and issued upon the exercise of the Conversion Rights attaching to the Bonds will be issued under the General Mandate which was approved by a resolution passed by the Shareholders at the Company's annual general meeting held on 29 May 2013. The Directors have not, prior to the date of the Agreement, exercised any of their powers conferred by the General Mandate. As such, the General Mandate will be sufficient for, and no further Shareholders' approval is required for, the allotment and issue of the Conversion Shares.

FUND RAISING ACTIVITIES BY THE COMPANY DURING THE PAST 12 MONTHS

The Company has not conducted any fund raising activities in the past 12 months before the date of this announcement.

INFORMATION ON THE SUBSCRIBER

The Subscriber is a private investment fund managed by a subsidiary of CITIC Capital Holdings Limited. Founded in 2002, CITIC Capital Holdings Limited is an alternative investment management and advisory company engaging in private equity, real estate, structured investment and finance, asset management and ventures.

GENERAL

The Company is an investment holding company. The principal activities of the Group are provision of dredging services (ranging from capital dredging, reclamation dredging, maintenance dredging to environmental protection dredging) as well as dredging-related construction services.

DEFINITIONS

In the announcement, the following expressions have the meanings set out below unless the context otherwise requires.

“Agreement”	the conditional subscription agreement dated 28 October 2013 entered into between the Company with the Subscriber in respect of the subscription of the Bonds
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Bond Conditions”	the terms and conditions endorsed on the Bonds in definitive form as they may from time to time be modified in accordance with their provisions and/or of the Bond Instrument
“Bondholder(s)”	the holder(s) of the Bonds

“Bond Instrument”	instrument to be executed by the Company by way of a deed poll constituting the Bonds
“Bonds”	the three per cent. (3%) convertible bonds in the aggregate principal amounts of HK\$243 million due 2016 to be issued by the Company under the Agreement
“Business Day”	any day (excluding a Saturday or a Sunday) on which licensed banks generally open for business in Hong Kong
“Closing Conditions”	conditions precedent to the completion of the Subscription
“Company”	Xiangyu Dredging Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 871)
“Completion Date”	means the third Business Day following the date on which all the conditions precedent under the Agreement are fulfilled or waived (as applicable)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Conversion Right”	the right of the Bondholder(s) to convert the whole or part of the principal amount of the Bonds into Shares subject to the terms and conditions thereof
“Conversion Shares”	new Shares which may fall to be allotted and issued upon conversion of the Bonds
“Director(s)”	the director(s) of the Company
“Distribution”	as provided in the Bond Conditions, which includes any dividend or distribution out of capital and whether of cash or assets in specie or other property (but excluding dividend payable out of profit and also subject to certain exceptions as contained in the Bond Conditions) to Shareholders
“General Mandate”	the general mandate granted to the Directors at the Company’s annual general meeting held on 29 May 2013 to allot, issue or otherwise deal in up to 160 million Shares
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Independent Third Party”	a party who is independent of and is not connected with any of the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	11 November 2013 or such later date as the Company and the Subscriber may agree in writing
“Maturity Date”	the date falling three years after the date of issue of the Bonds
“Redemption Date”	means the date which is four (4) Business Days after the receipt by the Company of the relevant redemption notice.
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	CITIC Capital China Access Fund Limited, being the subscriber of the Bonds under the Agreement
“Subscription”	subscription of the Bonds by the Subscriber on and subject to the terms and conditions of the Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

By order of the Board
Xiangyu Dredging Holdings Limited
Liu Kaijin

Joint Chairman, Executive Director and Chief Executive Officer

Hong Kong, 28 October 2013

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. Peng Cuihong, Mr. Huan Xuedong and Mr. Chan Ming Sun Jonathan as Independent Non-executive Directors.