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 UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Director(s)**") of Xiangyu Dredging Holdings Limited (the "**Company**") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2013, together with the unaudited comparative figures for the six months ended 30 June 2012 as follows, which are prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") and are presented in Renminbi ("**RMB**"):

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Six months ended 30 June	
		2013	2012
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**505,255**	482,437
Operating costs		**(312,058)**	(302,546)
Gross profit		**193,197**	179,891
Other income	*5*	**12,456**	16,917
Marketing and promotion expenses		**(6,945)**	(3,466)
Administrative expenses		**(24,093)**	(24,022)
Finance costs		**(16,873)**	(4,350)

	Notes	Six months ended 30 June 2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Profit before tax		**157,742**	164,970
Income tax expense	*6*	**(42,698)**	(45,248)
Profit for the period and total comprehensive income for the period	*7*	**115,044**	119,722
Profit for the period and total comprehensive income for the period attributable to:			
Owners of the Company		**106,925**	112,043
Non-controlling interests		**8,119**	7,679
		115,044	119,722
Earnings per share	*8*		
— basic *(RMB)*		**0.13**	0.14
— diluted *(RMB)*		**0.13**	0.14

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	Notes	At 30 June 2013 RMB'000 (Unaudited)	At 31 December 2012 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,367,034**	1,375,046
Prepaid land lease payments		**91,594**	92,800
Goodwill		**201**	201
Available-for-sale investment	*10*	**19,034**	—
Accounts and other receivables due after one year	*11*	**290,320**	109,463
		1,768,183	1,577,510
CURRENT ASSETS			
Prepaid land lease payments		**2,410**	2,410
Accounts and other receivables	*11*	**938,148**	910,867
Pledged bank deposits		**34,208**	76,017
Bank balances and cash		**109,773**	30,395
		1,084,539	1,019,689
CURRENT LIABILITIES			
Accounts and other payables	*12*	**357,240**	382,925
Amounts due to directors		**4,468**	7,732
Amounts due to non-controlling interests of a subsidiary		**4,900**	—
Tax payable		**137,432**	97,573
Bank borrowings	*13*	**562,038**	434,000
Other borrowings		**15,520**	33,236
		1,081,598	955,466
NET CURRENT ASSETS		**2,941**	64,223
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,771,124**	1,641,733

	At 30 June 2013 *RMB'000* (Unaudited)	At 31 December 2012 *RMB'000* (Audited)
CAPITAL AND RESERVES		
Share capital	**67,200**	67,200
Reserves	**1,486,340**	1,389,148
Equity attributable to owners of the Company	**1,553,540**	1,456,348
Non-controlling interests	**107,428**	87,527
TOTAL EQUITY	**1,660,968**	1,543,875
NON-CURRENT LIABILITIES		
Amounts due to non-controlling interests of a subsidiary	**89,242**	76,002
Deferred tax liabilities	**20,914**	21,856
	110,156	97,858
	1,771,124	1,641,733

NOTES:

1. GENERAL AND BASIS OF PREPARATION

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 condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "**Interim Financial Reporting**" issued by Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**").

The condensed consolidated financial statements are presented in RMB, which is also the functional currency of the Company.

On 19 April 2011, Jiangsu Xiangyu Port Constructing Project Administration Co., Ltd.* (江蘇翔宇港建工程管理有限公司) ("Xiangyu PRC"), Jiangsu Xingyu Port Construction Company Limited* (江蘇興宇港建有限公司) ("Jiangsu Xingyu") and its respective equity participants, being Mr. Liu Kaijin ("Mr. Liu") and Ms. Zhou Shuhua ("Ms. Zhou") entered into a series of agreements (the "Contractual Arrangements"). 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".

The Directors, after consulting legal opinion, are of the view that the terms of the Contractual Arrangements have in substance enabled Xiangyu PRC to obtain control over, and benefit from the entire beneficial economic interests in, Jiangsu Xingyu despite the absence of formal legal equity interest therein.

Accordingly, Jiangsu Xingyu is accounted for as a subsidiary of the Company. The assets, liabilities, results and cash flows of Jiangsu Xingyu are included in the condensed consolidated financial statements of the Group as if the Company had always been the parent of Jiangsu Xingyu.

2. GOING CONCERN BASIS OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2013, the Group has net current assets of approximately RMB2.9 million. While the Group has bank borrowings of approximately RMB562.0 million and other liabilities of approximately RMB519.6 million payable within one year from the end of the reporting period, its aggregate bank balances and cash is only approximately RMB109.8 million as at 30 June 2013. 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 30 June 2013 were secured by the Group's assets and are therefore highly probable that they can be renewed upon maturity in the next twelve months; and (iii) the Group's unutilised banking facilities of RMB165 million as at 30 June 2013 which will not mature in the next twelve months.

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

* *for identification only*

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, which are applicable upon new transactions that occurred in the current interim period, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2012.

Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated its equity interest in a private entity as AFS financial assets on initial recognition of those items.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

In the current interim period, the Group has applied, for the first time, certain new and revised HKFRSs issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

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 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. Details of the Group's four reportable segments during both periods 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 and lakes 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* (Unaudited)	Environmental Protection Dredging and Water Management Business *RMB'000* (Unaudited)	Dredging Related Construction Business *RMB'000* (Unaudited)	Other Marine Business *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Six months ended 30 June 2013					
Segment revenue	**230,280**	**175,252**	**23,124**	**76,599**	**505,255**
Segment results	**98,011**	**54,183**	**7,086**	**23,199**	**182,479**
Other income					**12,302**
Unallocated corporate expenses					**(22,255)**
Finance costs					**(14,784)**
Group's profit before tax					**157,742**
Other information:					
Depreciation of property, plant and equipment	**25,766**	**1,325**	**—**	**12,185**	
Six months ended 30 June 2012					
Segment revenue	213,570	143,793	61,590	63,484	482,437
Segment results	95,144	42,299	13,910	23,030	174,383
Other income					16,827
Unallocated corporate expenses					(23,380)
Finance costs					(2,860)
Group's profit before tax					164,970
Other information:					
Depreciation of property, plant and equipment	9,791	—	—	6,617	

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, 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 executive Directors for the purposes of resource allocation and performance assessment.

Segment assets

	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*
At 30 June 2013 (Unaudited)					
Segment assets	**1,394,723**	**392,053**	**73,745**	**468,145**	**2,328,666**
Unallocated assets:					
Prepaid land lease payments					**94,004**
Pledged bank deposits					**34,208**
Available-for-sale investment					**19,034**
Consideration receivable (included in accounts and other receivables)					**242,968**
Bank balances and cash					**109,773**
Shareholder's loan to Yongheng (included in accounts and other receivables)					**16,691**
Others					**7,378**
Consolidated assets					**2,852,722**

	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 (Audited)					
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
Others					4,062
Consolidated assets					2,597,199

For the purposes of monitoring segment performances and allocating resources between segments, assets (other than those unallocated assets stated above) are allocated to reportable and operating segments.

5. OTHER INCOME

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Government financial incentive *(note)*	**9,158**	9,547
Bank interest income	**1,215**	1,015
Interest income in respect of non-current accounts receivables *(Note 11)*	**1,999**	6,275
Sundry income	**84**	80
	12,456	16,917

note: Pursuant to a document issued by a People's Republic of China ("PRC") local government authority, one of the Company's PRC subsidiaries was to be granted financial incentive for the period up to 31 December 2015 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.

The PRC local government authority has further confirmed that the amount of such financial incentive the Group was entitled for the six months ended 30 June 2013 was RMB9,158,000 (six months ended 30 June 2012: RMB9,547,000). Accordingly, the Group recognised such amount as other income for the six months ended 30 June 2013 and 2012, respectively.

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax		
PRC Enterprise Income Tax	**43,640**	46,097
Deferred taxation	**(942)**	(849)
	42,698	45,248

notes:

(i) PRC Enterprise Income Tax

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

(ii) Hong Kong Profits Tax

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

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

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting) the following items:		
Depreciation of property, plant and equipment	**39,276**	25,255
Net foreign exchange gain	**(82)**	(652)
Share-based payment expense	**2,049**	7,323
Gain on disposals of property, plant and equipment	**—**	(46)
Sub-contracting charges included in operating costs	**160,915**	133,776

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:

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**106,925**	112,043
	'000	*'000*
Number of shares		
Number of ordinary shares for the purposes of basic and diluted earnings per share	**800,000**	800,000

The weighted average number of shares for the purposes of basic and diluted earnings per share for both periods were calculated based on the number of shares in issue during both periods.

The computation of diluted earnings per share for both periods does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price of shares.

9. DIVIDENDS

The Directors have determined that no interim dividend will be paid in respect of the six months ended 30 June 2013.

Subsequent to 30 June 2012, the Directors determined that an interim dividend of HK2 cents per share with an aggregate amount of HK$16,000,000 (equivalent to approximately RMB12,960,000) would be paid in respect of the six months ended 30 June 2012.

No final dividend for the year ended 31 December 2011 and 2012 was declared and paid in both periods.

10. AVAILABLE-FOR-SALE INVESTMENT

On 31 December 2012, the Group entered into a conditional agreement with one of its major trade debtors (the "Debtor") whereby the Debtor would transfer to the Group its (i) 95% equity interest in Yongheng (as defined below), 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 Yongheng 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.

鹽城市咏恒置業有限公司 (Yancheng City Yongheng Properties Co., Ltd) ("Yongheng") is a limited liability company established in the PRC, the sole assets of which are two parcels of land in the PRC. The scope of business of Yongheng includes construction and development of properties.

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

On 22 March 2013, the Group entered into a conditional sale and purchase agreement with 鹽城市鴻基建築安裝工程有限責任公司 Yancheng City Hongji Construction Installation Engineering Company Limited ("**Hongji Construction**"), an independent third party, whereby the Group has agreed to transfer to Hongji Construction its 85% equity interest in Yongheng together with 85% of the shareholder's loan for a total consideration of RMB252,968,000 (the "**Consideration**") (the "**3rd Agreement**"), to be settled in the following manner:

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

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

On 28 June 2013, Hongji Construction gave an undertaking to the Group that Hongji Construction shall pay, before 30 June 2014, a sum of not less than RMB50 million out of the RMB100 million originally payable before 31 December 2014. The payment terms per point (i) and (ii) above remain unchanged.

The 1st Agreement, the 2nd Agreement and the 3rd Agreement were completed on 2 April 2013, 2 April 2013 and 28 April 2013, respectively. The completion of the 3rd Agreement did not result in any gain or loss as the consideration for the disposal was determined with reference to the same valuation report used for the 1st Agreement.

The Group's 15% equity interest in Yongheng is classified as an AFS investment. This investment of RMB19,034,000 as at 30 June 2013 is measured at cost less impairment and is calculated with reference to the adjusted net assets value of Yongheng at the acquisition date.

11. ACCOUNTS AND OTHER RECEIVABLES

	At 30 June 2013	At 31 December 2012
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Non-current:		
Accounts receivables *(notes (i) & (ii))*	**140,661**	109,463
Value-added tax recoverable *(note (iv))*	**10,000**	—
Shareholder's loan to Yongheng *(note (v))*	**16,691**	—
Consideration receivable *(Note 10)*	**122,968**	—
	290,320	109,463

	At 30 June 2013 *RMB'000* (Unaudited)	At 31 December 2012 *RMB'000* (Audited)
Current:		
Accounts receivables *(note (i))*	**754,995**	860,041
Bills receivable *(note (iii))*	**180**	16,650
Value-added tax recoverable *(note (iv))*	**5,238**	—
Retention receivables	**2,054**	2,206
Deposits and prepayments	**22,172**	13,131
Government financial incentive receivables *(Note 5)*	**26,263**	17,105
Consideration receivable *(Note 10)*	**120,000**	—
Others	**7,246**	1,734
	938,148	910,867
	1,228,468	1,020,330

notes:

(i) 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 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 55% 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 45% 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 by the customers and 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:

Aged analysis of the Group's accounts receivables

	At 30 June 2013 *RMB'000* **(Unaudited)**	At 31 December 2012 *RMB'000* (Audited)
0–30 days	**227,775**	178,617
31–60 days	**58,503**	74,380
61–90 days	**41,761**	64,669
91–180 days	**127,663**	109,332
Over 180 days	**439,954**	542,506
	895,656	969,504

The amount of accounts receivables which were past due as at the end of the reporting period but for which the Group has not provided for impairment loss is analysed as follows:

Aged analysis of accounts receivables which were past due but not impaired

	At 30 June 2013 *RMB'000* **(Unaudited)**	At 31 December 2012 *RMB'000* (Audited)
0–30 days	**47,766**	69,812
31–60 days	**34,177**	61,185
61–90 days	**51,746**	20,832
91–180 days	**64,556**	36,071
Over 180 days	**299,133**	325,254
	497,378	513,154

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. No allowance for doubtful debts was recognised by the Group during both interim periods.

(ii) Non-current accounts receivables represent amounts due from several customers for construction work, the contracts for which include clauses for extended payment terms beyond one year.

Interest is charged in respect of such non-current accounts receivable balance at a rate of 10% per annum. During the six months ended 30 June 2013, interest income of about RMB1,999,000 (2012: RMB6,275,000) was recognised.

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

Aged analysis of the Group's bills receivable

	At 30 June 2013 ***RMB'000*** **(Unaudited)**	At 31 December 2012 *RMB'000* (Audited)
0–30 days	**—**	5,000
31–60 days	**—**	800
61–90 days	**180**	5,200
91–180 days	**—**	5,650
	180	16,650

(iv) As at 30 June 2013, an amount of RMB15,238,000 (31 December 2012: nil) value-added tax paid by the Group in connection with its purchase of plant and machinery and dredger in relation to Other Marine Business could be used to set-off against future value-added tax payable in relation to revenue generated from Other Marine Business. The Group has estimated that the value-added tax payable for the twelve months ending 30 June 2014 is approximately RMB5,238,000. Accordingly, the remaining value-added tax recoverable of RMB10,000,000 is not expected to be recovered within one year from the end of the reporting period and is classified as non-current.

(v) The amount is unsecured, interest-free and has no fixed repayment terms.

12. ACCOUNTS AND OTHER PAYABLES

	At 30 June 2013 *RMB'000* (Unaudited)	At 31 December 2012 *RMB'000* (Audited)
Accounts payables:		
Subcontracting charge	**171,855**	145,891
Chartering cost	**770**	2,120
Fuel cost	**37,121**	30,589
Repair and maintenance	**16,253**	16,862
Others	**8,292**	19,030
	234,291	214,492
Bills payable	**34,101**	84,000
Other payables:		
Accrued other taxes	**57,729**	52,038
Accrued staff salaries and welfare	**15,596**	19,379
Receipts in advance	**4,796**	3,493
Others	**10,727**	9,523
	88,848	84,433
	357,240	382,925

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:

	At 30 June 2013 *RMB'000* (Unaudited)	At 31 December 2012 *RMB'000* (Audited)
0–30 days	**101,507**	158,787
31–60 days	**13,774**	13,930
61–90 days	**11,994**	9,056
91–180 days	**24,737**	4,806
Over 180 days	**82,279**	27,913
	234,291	214,492

13. BANK BORROWINGS

During the current reporting period, the Group raised bank loans of RMB412,038,000 (2012: RMB199,000,000). During the six months ended 30 June 2012, the Group's bank borrowings were also increased by RMB57,995,000 through acquisition of a subsidiary. As at 30 June 2013, the Group's bank borrowings mainly carried interest at fixed rates ranging from 1.5% to 7.8% (31 December 2012: 6.00% to 8.53%) per annum.

14. RELATED PARTY DISCLOSURES

(I) Related party transactions

During the current reporting period, the Group paid rentals of RMB46,000 (2012: RMB46,000) to certain companies controlled by Mr. Liu in respect of office premises.

During the six months ended 30 June 2012, Mr. Liu paid approximately RMB7,000,000 (2013: nil) on behalf of the Group in respect of acquisition of prepaid land lease payments.

In addition, the Group received advances from, and made repayments to, Mr. Liu during the periods ended 30 June 2013 and 2012. As at 30 June 2013, the amount due to Mr. Liu is RMB3,050,000 (31 December 2012: RMB6,682,000).

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

As at 30 June 2013 and 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 guarantee provided by Mr. Liu and Ms. Zhou; and

(c) two properties owned by certain non-controlling shareholders of a subsidiary of the Company.

In addition, as at 30 June 2013, the Group's bank borrowings to the extent of HK$124,256,000 (equivalent to RMB98,038,000) were supported by a guarantee provided by China Merchant Bank Nanjing branch, which was in turn secured by two parcels of land owned by Yongheng. Another bank borrowings of the Group of RMB14,000,000 was supported by a property owned by a company in which Mr. Liu has beneficial interest.

(III) Compensation of key management personnel

Details of the emoluments paid or payable to the Company's directors and the chief executive during the period are as follows:

	Six months ended 30 June	
	2013	**2012**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short-term benefits	**3,170**	3,434
Post-employment benefits	**7**	—
Other long-term benefits	**—**	—
Share-based payments	**—**	—
	3,177	3,434

15. EVENT AFTER THE REPORTING PERIOD

As disclosed in the Company's announcement on 31 July 2013, the Group had on the same date entered into a sale and lease back agreement (the "Agreement") with a PRC financial institution ("Financial Institution") whereby in essence the Group would obtain financing of RMB85 million from the Financial Institution which is to be repayable by 16 quarterly installments plus interest at 6.4% per annum, subject to adjustment.

As collaterals for the above financing,

(i) The Group transferred the ownership title of one of its dredgers to the Financial Institution;

(ii) The Group placed a security deposit of RMB15 million and pledged certain of its accounts receivables with the Financial Institution;

(iii) Mr. Liu provided a personal guarantee for the due performance of the Group's obligations under the Agreement; and

(iv) The Company entered into a guarantee in favour of the Financial Institution for the due performance of the Group's obligations under the Agreement.

When the above financing of RMB85 million is drawn by the Group, it would be recognised as an obligation under finance lease. Upon discharging all the Group's obligations under the Agreement, the Financial Institution will return the ownership title of the dredger to the Group for a nominal value.

INTERIM DIVIDEND

The Directors have determined that no dividend will be paid in respect of the six months ended 30 June 2013 (2012: HK2 cents per share).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period, the Company recorded a revenue of approximately RMB505.3 million, representing a year-on-year increase of 4.7%. During the period, the gross profit of the Company was approximately RMB193.2 million, representing a year-on-year increase of 7.4%. Profit attributable to the Shareholders was approximately RMB106.9 million.

In the first half of 2013, China's economy experienced a steady growth with a growth rate of 7.6% for the first half of the year. The dredging market continued to offer opportunities as well as presenting challenges. Following the recovery of the macro economy and the implementation of national policies for urbanization in the PRC in 2013, the capital and reclamation dredging market has begun to show signs of bottoming out. The Company has been able to tap the opportunities during the recovery of the traditional dredging market. Meanwhile, in view of the implementation of the environmental protection policies and planned investments in water conservancy projects contemplated in the "Twelfth Five-Year Plan", the Company has taken different initiatives to speed up the development of its environmental protection dredging and water management business including the preparation for massive production of the mechanical sludge dewatering system for environmental protection dredging (the "System"). Moreover, the dredging industry in certain countries in Southeast Asia is in similar industry cycle as that in the PRC which is expected to provide a lot of opportunities for the Company.

During the reporting period, the number of new orders gradually increased as the market condition of traditional dredging business was picking up momentum. Major projects secured by the Group during the period included a reclamation project at Yancheng Coastal Harbour in Jiangsu Province, the PRC, a reclamation project at Lianyun Harbour in Jiangsu Province, the PRC, and a reclamation project at Huanghua Harbour in Hebei Province, the PRC. The Group also actively explored opportunities to extend its services to other geographical areas from northern China to southern China, as well as the overseas markets, and in particular in countries in the South-east Asia.

The prospect of the environmental protection dredging and water management business market remain promising with enormous development potential and market prospects. The Company had achieved successful results in phase one of the environmental protection project at Wuhan in Hubei Province, the PRC. Dedicated to maintain its leading position in the environmental protection dredging market, the Group has continued to increase its investment in its research and development of the System of which the registration of certain intellectual property rights has been granted. Meanwhile, the Group is prepared to commence its environmental protection dredging projects in Hunan Province, the PRC. In addition, the Group signed a contract for a new water management project of the value of about RMB276 million during the reporting period.

The strategic acquisition of Jiangsu Jiaolong in 2012 successfully brought in a new segment which has broadened the Group's customer base and, in addition, reaped a good profit in the first half year of 2013. The Company believes that, being the leading company in the domestic salvage and hoisting industry, Jiangsu Jiaolong will continue to achieve a stable growth in the said market as well as generating a steady return to the Group.

Future Prospects

The Management is fully confident that the prospect of the dredging industry is promising. Following the implementation of the Twelfth Five-Year Plan and a slow but steady global economic recovery, the port construction in the PRC has entered into a steady development stage and the demand for the reclamation dredging services is expected to have a moderate growth. As the water pollution problem in the PRC is getting aggravated that immediate treatment of polluted lakes and rivers (in particular, removal of contaminated sediments) is badly in need, environmental protection dredging business is expected to have a significant growth in the coming years. While the Company will continue to maintain a steady growth in the Company's traditional dredging businesses, the Company will focus on increasing of its market share of the environmental protection dredging business in the coming years. In order to achieve this goal, the Company will strengthen its competitive edge through massive production of the System which is a highly efficient sludge dewatering system being used in the Company's Wuhan environmental protection dredging project with proven highly satisfactory result for the removal of contaminated sediments and the discharging clean processed water back into lakes and rivers.

The Management believes that, as aforesaid, with the steady demand for traditional dredging services and the high growth potential of environment protection dredging business in the coming years, the business strategy adopted by the Company will definitely improve the shareholders' value of the Company. Apart from pursuing the objective of profit making, the Board and the management are committed to do their best to bring good to the country and its people as a whole by providing effective services in respect of the treatment and recovery processes of polluted lakes and rivers.

Financial Review

Overview

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 period, the Group recorded a slight growth in revenue. Revenue for the six months ended 30 June 2013 was about RMB505.3 million, representing an increase of about 4.7% as compared with about RMB482.4 million in the corresponding period of 2012.

As regards the CRD Business segment and EPD and Water Management Business segment, the respective revenues generated during the six months ended 30 June 2013 were about RMB230.3 million and about RMB175.3 million which represented an increase of about 7.8% and an increase of about 21.9% respectively from the corresponding segments' revenue in the corresponding period of 2012. The increase in revenue from the CRD Business segment was primarily attributable to the increase in dredging volume completed as a result of the increase in demand for capital and reclamation dredging in the PRC. Revenue from EPD and Water Management Business segment increased in the first half of 2013 because of the revenue contributed by the environmental protection project in Wuhan and a new water management contract that commenced in early 2013.

During the period, the Group has obtained a new contract in the Dredging Related Construction Business. The revenue generated from the Dredging Related Construction Business during the six months ended 30 June 2013 was about RMB23.1 million which represented a decrease of about 62.5% as compared with about RMB61.6 million in the corresponding period of 2012. The decrease in revenue in this segment was due to our focus on CRD Business and EPD and Water Management Business, which enjoy higher gross profit margin.

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 RMB76.6 million to the Group for the six months ended 30 June 2013, which represented an increase of about 20.7% as compared with about RMB63.5 million in the corresponding period of 2012.

Further details of the Company's business in the period are set out in the section headed "Business Review" above.

Operating cost and gross profit

The Group's operating cost increased from about RMB302.5 million for the six months ended 30 June 2012 to about RMB312.1 million for the six months ended 30 June 2013, representing an increase of about 3.1%. The increase in operating cost was in line with the increase in revenue. The Group recorded a gross profit of about RMB193.2 million for the six months ended 30 June 2013, representing an increase of 7.4% as compared with the six months ended 30 June 2012 of about RMB179.9 million.

The gross profit margin of CRD Business slightly dropped from about 44.5% for the six months ended 30 June 2012 to about 42.6% for the six months ended 30 June 2013, as a result of the diversification to new projects that required equipment not possessed by the Group, hence bringing about an increase in use of subcontractors. 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.

The gross profit margin of EPD and Water Management Business slightly increased from about 29.4% for the six months ended 30 June 2012 to about 30.9% for the six months ended 30 June 2013 as a result of the increase in the environmental protection dredging business which has a relatively higher gross profit margin.

The gross profit margin of Other Marine Business maintained a high profit margin of about 45.0% for the six months ended 30 June 2012 and about 44.3% for the six months ended 30 June 2013.

As a result, the overall gross profit margin of the Group increased slightly from 37.3% for the six months ended 30 June 2012 to 38.2% for the six months ended 30 June 2013.

Other income

Other income decreased by about RMB4.5 million to about RMB12.5 million for the six months ended 30 June 2013 which was mainly due to the decrease in interest income in respect of non-current accounts receivable as a result of the settlement of certain non-current accounts receivable during the period.

Marketing and promotion expenses

Marketing and promotion expenses increased by about RMB3.5 million to about RMB6.9 million for the six months ended 30 June 2013 due to the increase in marketing activities in the period in order to expand the Group's customer bases.

Administrative expenses

Administrative expenses for the six months ended 30 June 2013 remained at a reasonable level which is in line with the corresponding period in 2012.

Finance costs

Finance costs increased by about RMB12.5 million to about RMB16.9 million for the six months ended 30 June 2013 due to the increase in bank borrowings.

Income tax expense

Due to the slight decrease in profit before tax, income tax expense for the six months ended 30 June 2013 amounted to about RMB42.7 million, representing a decrease of about RMB2.6 million compared with the corresponding period in 2012.

Profit for the period

As a combined effect of the above, the profit for the period decreased by about 3.9% from about RMB119.7 million for the six months ended 30 June 2012 to about RMB115.0 million for the six months ended 30 June 2013.

Earnings per share

Earnings per share decreased by about 7.2% from RMB0.14 per share to RMB0.13 per share due to the decrease in profit for the period.

Financial Position, Liquidity and Financial Resources

The Group has remained at a sound financial resource level. As at 30 June 2013, total equity of the Group amounted to about RMB1,661.0 million (31 December 2012: RMB1,543.9 million).

The Group's net current assets as at 30 June 2013 amounted to about RMB2.9 million (31 December 2012: RMB64.2 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 30 June 2013 was 1.00 (31 December 2012: 1.07). The decreases in both the Group's net current assets and current ratio were mainly due to the increase in short-term bank borrowings, the Group's consideration receivable due to the disposal of equity interests in Yongheng (the consideration receivable therefrom will be settled by instalments in three years) 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.

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 RMB and Hong Kong dollars.

Included in net current assets were cash and various bank deposits totalling about RMB144.0 million as at 30 June 2013, representing an increase of about RMB37.6 million as compared with about RMB106.4 million as at 31 December 2012.

Due to the improvement of settlement from the debtors, the Group's accounts and bills receivables as at 30 June 2013 decreased by about RMB90.3 million to about RMB895.8 million. 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 amount of overdue receivables as at 30 June 2013 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 period.

On 31 December 2012, the Group entered into a conditional agreement with one of its major trade debtors (the "Debtor"), pursuant to which the Group agreed to acquire from the Debtor 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 the Debtor 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 its 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 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. Please refer to the Company's announcement dated 22 March 2013 for further details.

On 28 June 2013, Hongji Construction gave an undertaking to the Group that Hongji Construction shall pay, before 30 June 2014, a sum of not less than RMB50 million out of the RMB100 million originally payable before 31 December 2014. The payment terms per point (i) and (ii) above remain unchanged.

In order to minimise 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 30 June 2013 were about RMB1,191.8 million (31 December 2012: RMB1,053.3 million). The increase mainly represented increase in bank loans of about RMB128.0 million, all of which are denominated in RMB and HK$ 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 19.7% (2012: 16.7%), which the Board believes is at a healthy level.

Charge Over Assets of the Group

As at 30 June 2013, the Group's bank borrowings and credit facilities are secured by pledged bank deposits of about RMB34.2 million, charges over certain dredgers, accounts receivables and land owned by the Group, two parcels of land owned by Yongheng, a property owned by a company in which Mr. Liu has beneficial interest, two 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.

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 RMB, which is the Group's operating 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.

With the current interest rates staying at relatively low levels, the Group has not entered into any interest rate hedge contracts or any other interest rate related derivative financial instrument. However, the Group continues to monitor its related interest rate exposure closely.

Material Acquisitions and Disposals

Apart from the framework agreement entered 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 as disclosed in the Company's announcement dated 21 October 2012 and the acquisition and subsequent disposal of equity interest of TargetCo as set out aforesaid under the paragraph heading "Financial Position, Liquidity and Financial Resources", there was no other material acquisitions or disposals during the period under review.

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 significant capital commitments committed but not provided for as at 30 June 2013.

As at 30 June 2013, the Group did not have any material contingent liability (31 December 2012: nil).

Event after end of reporting period

On 31 July 2013, the Group entered into a finance lease arrangement with a PRC financial institution. Please refer to the Company's announcement dated 31 July 2013 and note 15 of the condensed consolidated financial statements of this announcement for further details.

Employees and Remuneration Policy

As at 30 June 2013, the Group had a workforce of 671 employees (31 December 2012: 606). Total staff cost for the six months ended 30 June 2013 was about RMB27.4 million (2012: RMB19.9 million). The Group's remuneration policy is basically determined by the performance of individual employees and the Directors and the market conditions. 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). The Group also provides on-going training to its employees.

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Stock Exchange made certain amendments ("Amendments") to the Listing Rules, which related to the Corporate Governance Code, ("CG Code") practices and reporting. Such revision took effect from 1 January 2012, 1 April 2012 or 31 December 2012 respectively.

The Company is committed to high standards of corporate governance. The Directors believe that the Company has complied with all the code provisions of the CG Code in Appendix 14 of the Listing Rules for the six months ended 30 June 2013 and there was no material deviation from the CG Code.

AUDIT COMMITTEE AND REVIEW OF UNAUDITED FINANCIAL STATEMENTS

The audit committee of the Company has been set up in accordance with the Listing Rules. Members of the audit committee as at 30 June 2013 comprised Mr. Chan Ming Sun Jonathan (chairman), Ms. Peng Cuihong and Mr. Huan Xuedong, all of them are independent non-executive Directors.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group, financial reporting matters including a review of the unaudited consolidated results for the six months ended 30 June 2013 prior to recommending them to the Board for approval.

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2013 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the websites of the Company (*www.xiangyu.com.hk*) and the Stock Exchange (*www.hkexnews.com.hk*). An interim report for the six months ended 30 June 2013 containing all the information required by Appendix 16 to the Listing Rules will be despatched to shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 29 August 2013

As at the date of this announcement, the Board comprises Mr. Liu Kaijin as the Company's Joint Chairman, an Executive Director and Chief Executive Officer; Ms. Zhou Shuhua as an Executive Director; Mr. Liu Longhua as Joint Chairman and Non-executive Director; and Ms. Peng Cuihong, Mr. Huan Xuedong and Mr. Chan Ming Sun, Jonathan as Independent Non-executive Directors.