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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)

DISCLOSEABLE TRANSACTION: ACQUISITION OF EQUITY INTEREST IN TARGETCO PRINCIPALLY HOLDING LAND USE RIGHTS IN THE PRC AND SETTLEMENT OF TRADE RECEIVABLE

The Board announces that on 31 December 2012 (after trading hours), Xiangyu Water Management entered into an agreement with Yandu State-owned Assets Investment. Under the Agreement, subject to the conditions precedent set out therein, Xiangyu Water Management agreed to acquire and Yandu State-owned Assets Investment agreed to sell 95% equity interest in Targetco at the Purchase Price and also the Shareholder's Loan at its book value. The Total Consideration will be settled by way of setting off against the trade receivable due from Yandu State-owned Assets Investment to Xiangyu Water Management at the amount equivalent to the sum of the Purchase Price and the book value of the Shareholder's Loan.

Concurrent to the above Acquisition, Xiangyu Water Management on 31 December 2012 entered into a conditional agreement with the Minority Equity-holder in which, subject to the completion of the Agreement, Xiangyu Water Management has agreed to acquire and the Minority Equity-holder has agreed to sell, 5% equity interest in Targetco at a cash consideration of RMB400,000.

Given that the applicable percentage ratios of the Transaction is more than 5% but less than 25%, the Transaction constitutes a discloseable transaction for the Company under the Listing Rules.

INTRODUCTION

On 28 July 2011, Xiangyu Water Management (as service provider) and Yandu State-owned Assets Investment (as customer) entered into the Yandu Contract. According to the repayment schedule set out in the Yandu Contract, completed construction works that were accepted by Yandu State-owned Assets Investment would be settled by three annual instalments with the 1st instalment being repayable on the date of 30th working days from the date of such acceptance of completed works. As at the date of this

announcement, the Group has trade receivable due from Yandu State-owned Assets Investment in respect of the Yandu Contract amounted to RMB328.3 million in total, out of which about RMB98.9 million is construction works receivable already overdue, about RMB16.8 million is interest receivable and about RMB212.6 million is not yet overdue. The construction progress of the Yandu Contract has been slowed down and the Group is reviewing the corresponding construction timetable with Yandu State-owned Assets Investment taking into account of the settlement status.

Through mutual discussion and negotiation, Yandu State-owned Assets Investment has proposed to settle part of the trade receivable due from them by way of transfer of its shares of Targetco, the only asset of which is the Land. The Board considers that the transfer of shares of Targetco is to the interest of the Company and the Shareholders as a whole as (i) the proposal can accelerate the settlement of the trade receivable due from Yandu State-owned Assets Investment, and (ii) the Land is situated at the prime location of Yandu District with promising development potential. Accordingly, the Board announces that on 31 December 2012 (after trading hours), Xiangyu Water Management entered into the Agreement with Yandu State-owned Assets Investment.

Under the Agreement, subject to the conditions precedent set out therein and summarised below, Xiangyu Water Management agreed to acquire and Yandu State-owned Assets Investment agreed to sell 95% equity interest in Targetco at the Purchase Price and also the Shareholder's Loan at its book value. The Total Consideration will be settled by way of setting off against the trade receivable due from Yandu State-owned Assets Investment to Xiangyu Water Management at the amount equivalent to the sum of the Purchase Price and the book value of the Shareholder's Loan.

PRINCIPAL TERMS OF THE AGREEMENT

Subject matter of the Agreement

As at the date of the Agreement, Targetco's registered capital amounted to RMB8 million. The principal activities of Targetco include property development and related operations. The registered shareholders of Targetco are (i) Yandu State-owned Assets Investment (as to 95% equity interest), and (ii) the Minority Equity-holder (as to 5% equity interest).

Each of the Targetco, Yandu State-owned Assets Investment and the Minority Equity-holder is, to the best of the Directors' knowledge and belief, after having made all reasonable enquiries, an Independent Third Party.

Consideration

The Total Consideration under the Agreement is equal to or not less than the sum of the Purchase Price which is determined by the Valuation (subject to procedures required for the acquisition of state-owned assets under the laws of the PRC) and the Shareholder's Loan at its book value. Further announcement shall be made as and when appropriate and/or required if the Total Consideration under the Agreement is determined to be higher than the sum of the Valuation and the Shareholder's Loan.

The Total Consideration will be settled by way of setting off against the trade receivable due from Yandu State-owned Assets Investment to Xiangyu Water Management.

Completion of the Agreement

Completion of the Agreement is subject to, among other matters, the satisfaction of the following conditions precedent:

- (i) approval from and/or registration with the relevant PRC governmental authorities in respect of the transfer of state-owned assets has been given/made;
- (ii) approval from and/or registration with the Ministry of Commerce of the PRC (if applicable) has been given/made;
- (iii) approval (if any) by the competent authority with regard to the change of shareholding in the Targetco and the change of the Targetco's constitutional documents has been given;
- (iv) approval from and/or registration with other authorities, if laws require, has been given/made;
- (v) written consent by Xiangyu Water Management as to the Purchase Price and the Shareholder's Loan shall be equal to or not less than the Valuation and the book value respectively has been given;
- (vi) the results of the due diligence conducted by Xiangyu Water Management including but not limited to whether the prospect of the development of the Land matches with relevant requirement in respect of properties development on the Land are satisfactory to Xiangyu Water Management;
- (vii) approval (which includes Shareholders' approval) under the Listing Rules or applicable law of Hong Kong (where applicable) has been given; and
- (viii) a PRC legal opinion confirming all necessary approval from all relevant governmental authorities in respect of the transfer of the equity interests of the Targetco and the Shareholder's Loan has been issued.

If all conditions precedent have not been fulfilled and satisfied on or before 31 May 2013 (or a date to be subsequently agreed between the parties), the Agreement shall be terminated automatically.

Undertakings given by Yandu State-owned Assets Investment

Yandu State-owned Assets Investment undertakes that:

- (i) Targetco has a good title as to the Land which is free of encumbrances; and
- (ii) Other than the assets and liabilities disclosed in the balance sheet of the Targetco, Targetco does not have any other liabilities or guarantees or tort that leads to any liability.

AGREEMENT WITH THE MINORITY EQUITY-HOLDER

Concurrent to the above Acquisition, Xiangyu Water Management on 31 December 2012 entered into a conditional agreement with the Minority Equity-holder in which, subject to the completion of the Agreement, Xiangyu Water Management has agreed to acquire and the Minority Equity-holder has agreed to sell, 5% equity interest in Targetco at a cash consideration of RMB400,000, which is calculated based on the nominal value of the portion of registered capital of Targetco owned by the Minority Equity-holder. The consideration will be payable upon the completion of the transfer of equity interest under the Agreement and the registration of the transfer of 5% equity interest from the Minority Equity-holder.

INFORMATION ON THE GROUP, TARGETCO AND YANDU STATE-OWNED ASSETS INVESTMENT

The Group is principally engaged in providing dredging related services in the PRC, ranging from capital and reclamation dredging business, environmental protection dredging and water management business, dredging related construction business, and other marine business. Targetco is a limited liability company incorporated in October 2012 in the PRC and its scope of business includes property development and related operation. Yandu State-owned Assets Investment is a state-owned enterprise incorporated in the PRC in October 1997. Its principal business activities include, among others, management of property rights in designated areas, deciding on change of property rights and restructuring in designated areas, raising funds for investment development in designated areas and its related management, etc.

The Directors consider that the Transaction (if completed) would enable the Group to accelerate the settlement of the trade receivable due from Yandu State-owned Assets Investment and to acquire the Land (which is situated at the prime location of Yandu District with development potential) through the acquisition of the Targetco. The Directors, including the independent non-executive Directors, believe that the transactions under the Agreement and the conditional agreement with the Minority Equity-holder are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

As at the date of this announcement, the Group considers that the Land acquired through the Targetco could be developed as residential properties with potential co-developers, or as an alternative, the Targetco could be disposed of as and when appropriate and as at the date of this announcement, no solid decision has yet been made in this regard.

Upon completion of the above Transaction, Targetco will become a wholly-owned subsidiary of the Company, and the financial results of Targetco will be combined and accounted for as a subsidiary of the Company.

Financial Information of Targetco

Based on the unaudited management accounts of the Targetco provided by Yandu State-owned Assets Investment, the total asset and net asset value of Targetco as at 20 December 2012 amounted to about RMB299.0 million and about RMB187.7 million respectively. Set out below is the summary of the unaudited key financial information of Targetco the period from 8 October 2012 (date of incorporation) to 20 December 2012:

**Period from
8 October 2012 (date of
incorporation) up to
20 December 2012**
(in RMB million)

Revenue	—
Net profit (before tax)	—
Net profit (after tax)	—

LISTING RULES IMPLICATIONS

Given that the applicable percentage ratios of the Transaction is more than 5% but less than 25%, the Transaction constitutes a discloseable transaction for the Company under the Listing Rules.

DEFINITIONS

In this announcement, the following definitions shall have the meanings set out below, unless the context requires otherwise:

“Acquisition”	the purchase of 95% equity interest in Targetco and the Shareholder’s Loan by Xiangyu Water Management from Yandu State-owned Assets Investment pursuant to the Agreement
“Agreement”	the agreement dated 31 December 2012 and made between Xiangyu Water Management (as purchaser) on the one part and Yandu State-owned Assets Investment (as vendor) on the other part, pursuant to which Yandu State-owned Assets Investment has agreed to sell 95% equity interest in Targetco at the Purchase Price and also the Shareholder’s Loan at its book value to Xiangyu Water Management
“Board”	the board of Directors
“Company”	Xiangyu Dredging Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	a third party independent of and not connected with the Company and its subsidiaries and its connected persons (as defined under the Listing Rules)
“Land”	two pieces of land located at 鹽城市鹽都區龍街道丁晏居委會 with an aggregated area of about 11,000 m ²
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Minority Equity-holder”	current holder of 5% equity interest in Targetco, namely 沈國凡 (Shen Guofan*)
“PRC”	the People’s Republic of China
“Purchase Price”	the consideration of the purchase of 95% equity interest in Targetco as determined by the Valuation

“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	holders of the Shares
“Shareholder’s Loan”	shareholder’s loan due from Targetco to Yandu State-owned Assets Investment as at the Valuation Date, amounted to approximately RMB111.3 million
“Share(s)”	share(s) of HK\$0.1 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Targetco”	鹽城市咏恒置業有限公司 (Yancheng City Yongheng Properties Co., Ltd.*), a limited liability company incorporated in the PRC
“Total Consideration”	the sum of the Purchase Price and the Shareholder’s Loan
“Transaction”	collectively, the transactions under the Agreement and the purchase of 5% equity interest in Targetco by Xiangyu Water Management from the Minority Equity Holder
“Valuation”	the value of 95% of the equity interest of Targetco at the Valuation Date which amounted to about RMB177.0 million
“Valuation Date”	the date on which the Valuation Report is reported which is 25 December 2012
“Valuation Report”	a report issued by an Independent Third Party engaged by Targetco on 26 December 2012 that provide a valuation of 95% equity interest of Targetco
“Xiangyu Water Management”	江蘇翔宇水務有限公司 (Jiangsu Xiangyu Water Management Company Limited*), a limited liability company incorporated in the PRC, which is an indirect wholly owned subsidiary of the Company
“Yandu Contract”	a dredging contract entered into between Xiangyu Water Management (as service provider) and Yandu State-owned Assets Investment (as a customer), for the purpose of a dredging project located at Yancheng City, Yandu District, Jiangsu Province, the PRC, on 28 July 2011.

“Yandu State-owned Assets
Investment”

鹽城市鹽都區國有資產投資經營有限公司 (Yancheng City Yandu District State-owned Assets Investment Management Co., Ltd.*), being the holder of 95% of the equity interest in Targetco

By order of the Board
Xiangyu Dredging Holdings Limited
Liu Kaijin
Chief executive officer and executive Director

Hong Kong, 31 December 2012

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

* *For identification purpose only*