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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 AND CONNECTED TRANSACTION FINANCE LEASE ARRANGEMENT

FINANCE LEASE ARRANGEMENT

The Board is pleased to announce that, on 31 July 2013 (after trading hours), Xingyu (a wholly-owned subsidiary of the Company by virtue of the Contractual Arrangements) and Xiangyu (an indirect wholly-owned subsidiary of the Company) entered into the Finance Lease Arrangement with CMBFL comprising, among others, (i) the Dredger Purchase Agreement and (ii) the Finance Lease Agreement, whereby Xingyu and Xiangyu, being the joint owners of the Dredger, have agreed to sell the Dredger to CMBFL at the Purchase Consideration of RMB283,290,000 (equivalent to approximately HK\$357,915,351) and CMBFL has agreed to lease back the Dredger to Xingyu for the Lease Consideration of approximately RMB295,308,245 (equivalent to approximately HK\$373,099,488), comprising the initial rental of RMB198,290,000 (equivalent to approximately HK\$250,524,321), the Finance Amount of RMB85,000,000 (equivalent to approximately HK\$107,391,030) and the interest and tax of approximately RMB12,018,245 (equivalent to approximately HK\$15,184,138), subject to adjustment, for a term of 48 months.

On the same date, the Company entered into the Guarantee in favour of CMBFL to secure the due performance of the obligations of Xingyu under the Finance Lease Agreement. Xingyu also entered into the Accounts Receivable Pledge Agreement with CMBFL to pledge the Accounts Receivable in favour of CMBFL to secure the due performance of the payment obligations of Xingyu to CMBFL under the Finance Lease Agreement. Mr. Liu provided the Personal Guarantee in favour of CMBFL for all the payment obligations and performance of the obligations of Xingyu under the Finance Lease Agreement and other related agreements.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, CMBFL and its ultimate beneficial owners are Independent Third Parties.

LISTING RULES IMPLICATION

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Finance Lease Arrangement are more than 5% but less than 25%, the Finance Lease Arrangement constitutes a discloseable transaction of the Company under the Listing Rules and is subject to the notification and announcement requirements set out in Rule 14.33 of the Listing Rules.

By virtue of the Contractual Arrangements, Xingyu is regarded as a wholly-owned subsidiary of the Company. The provision of the Guarantee by the Company for the benefit of Xingyu in obtaining the Finance Amount under the Finance Lease Arrangement for conducting the Group's business operations in the PRC is therefore covered by the waiver granted by the Stock Exchange from strict compliance with the connected transaction rules under the Listing Rules in respect of the Contractual Arrangements.

Mr. Liu, being the controlling Shareholder, executive Director and Chief Executive Officer of the Company, is a connected person of the Company under the Listing Rules. The provision of the Personal Guarantee by Mr. Liu for the benefit of Xingyu amounts to financial assistance by the connected person for the benefit of the Group. Since such financial assistance will be provided by Mr. Liu on normal commercial terms or more favourable terms to the Group and no security over the assets of the Group will be granted in respect of the Personal Guarantee, the Personal Guarantee constitutes an exempt connected transaction of the Company under Rule 14A.65(4) of the Listing Rules, which is exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE FINANCE LEASE ARRANGEMENT BY WAY OF SALE AND LEASEBACK

On 31 July 2013 (after trading hours), Xingyu (a wholly-owned subsidiary of the Company by virtue of the Contractual Arrangements) and Xiangyu (an indirect wholly-owned subsidiary of the Company) entered into the Finance Lease Arrangement with CMBFL comprising, among others, (i) the Dredger Purchase Agreement and (ii) the Finance Lease Agreement, whereby Xingyu and Xiangyu, being the joint owners of the Dredger, have agreed to sell the Dredger to CMBFL at the Purchase Consideration of RMB283,290,000 (equivalent to approximately HK\$357,915,351) and CMBFL has

agreed to lease back the Dredger to Xingyu for the Lease Consideration of approximately RMB295,308,245 (equivalent to approximately HK\$373,099,488), subject to adjustment, for a term of 48 months.

The details of the Finance Lease Arrangement are summarised as follows:

DREDGER PURCHASE AGREEMENT

Date: 31 July 2013

Parties:

Sellers: (1) Xingyu
(2) Xiangyu

Buyer: CMBFL

Pursuant to the Dredger Purchase Agreement, Xingyu and Xiangyu, being the joint owners of the Dredger, have agreed to sell the Dredger to CMBFL at the Purchase Consideration of RMB283,290,000 (equivalent to approximately HK\$357,915,351).

The Purchase Consideration of RMB283,290,000 (equivalent to approximately HK\$357,915,351) was determined after arm's length negotiation between Xingyu and Xiangyu as the sellers and CMBFL as the buyer with reference to the net book value of the Dredger as at 30 June 2013. The Purchase Consideration shall be paid by CMBFL in a lump sum to the designated bank account of Xingyu and Xiangyu. The timing and manner of the completion of the sale and purchase of the Dredger will take place in accordance with the terms to be set out in a mutually agreed completion notice.

FINANCE LEASE AGREEMENT

Date: 31 July 2013

Parties:

Lessor: CMBFL

Lessee: Xingyu

Pursuant to the Finance Lease Agreement, CMBFL (as lessor) has agreed to lease back the Dredger to Xingyu (as lessee) for the Lease Consideration of approximately RMB295,308,245 (equivalent to approximately HK\$373,099,488), subject to adjustment, for a term of 48 months.

Objects of the Lease

The object of the Finance Lease Arrangement is the Dredger for carrying out the reclamation dredging business by Xingyu in the PRC.

Lease Period

The lease period for the Dredger is 48 months commencing from the payment date of the Purchase Consideration to be payable by CMBFL to Xingyu and Xiangyu pursuant to the Dredger Purchase Agreement (the “Lease Period”).

Lease Consideration and Payments

Pursuant to the Finance Lease Agreement, CMBFL has agreed to lease back the Dredger to Xingyu for the Lease Consideration of approximately RMB295,308,245 (equivalent to approximately HK\$373,099,488), comprising the initial rental of RMB198,290,000 (equivalent to approximately HK\$250,524,321), the Finance Amount of RMB85,000,000 (equivalent to approximately HK\$107,391,030) and the interest and tax of approximately RMB12,018,245 (equivalent to approximately HK\$15,184,138), subject to adjustment, for a term of 48 months.

The Finance Amount of RMB85,000,000 (equivalent to approximately HK\$107,391,030) (being the balance of the Purchase Consideration after deducting the initial rental of RMB198,290,000 (equivalent to approximately HK\$250,524,321)) shall be repayable in a quarterly rental of approximately RMB6,063,640 (equivalent to approximately HK\$7,660,948) in sixteen (16) instalments commencing from a date to be agreed by the parties upon completion of the necessary filing and/or registration with the relevant PRC authorities regarding the transfer of the title of the Dredger under the Dredger Purchase Agreement, inclusive of interest and tax.

The interest is determined based on the RMB Benchmark Lending Rate for three to five-year term loan promulgated by PBC. As at the date of this announcement, the RMB Benchmark Lending Rate for three to five-year term loan promulgated by PBC is 6.4% per annum. Based on the above interest rate, the approximate amount of each rental instalment is RMB6,063,640 (equivalent to approximately HK\$7,660,948), inclusive of interest and tax.

CMBFL shall have the right to adjust such interest rate unilaterally without the consent of Xingyu in the event that the RMB Benchmark Lending Rate is adjusted (which adjustment will be equivalent to the RMB Benchmark Lending Rate) and the Lease

Consideration will be adjusted accordingly. The Lease Consideration and the pre-set interest rate have been agreed after arm's length negotiations between the parties with reference to the prevailing market interest rate for medium-term loans.

In addition, CMBFL is also entitled to a non-refundable handling fee of RMB1,820,000 (equivalent to approximately HK\$2,299,431).

Security Deposit Payment

Under the Finance Lease Agreement, CMBFL is entitled to a security deposit of RMB15,000,000 (equivalent to approximately HK\$18,951,358) which shall be paid by Xingyu in a lump sum before the commencement of the Lease Period. If Xingyu defaults in any of its payment obligations under the Finance Lease Agreement, including but not limited to liquidated damages, other expenses and unpaid rentals, such security deposit shall be deducted by CMBFL accordingly and Xingyu shall pay the shortfall of the security deposit in time. If there is no event of default by Xingyu during the Lease Period of the Finance Lease Agreement, such security deposit will be refunded to Xingyu without interest by way of off-setting the last one or several rental instalment(s).

Payment Account

Pursuant to the Finance Lease Agreement, Xingyu has agreed to open a designated account at CMB Yancheng for the purposes of receiving the Purchase Consideration and paying the rental instalments and other payments, and Xingyu has authorised CMB Yancheng to automatically transfer the rental instalments and other payments from such designated account. On 31 July 2013, Xingyu and CMB Yancheng entered into an authorisation agreement to effect the above arrangement.

Ownership of the Dredger

During the Lease Period, the legal ownership of the Dredger will vest in CMBFL. Upon expiry of the Lease Period and subject to the payment of the Lease Consideration, handling fee and other payables (if any) in full, Xingyu shall have the irrevocable obligation to purchase the Dredger from CMBFL at an agreed nominal amount of RMB1.00 (equivalent to approximately HK\$1.26), upon the fulfillment of which the title of and all rights in the Dredger shall vest in Xingyu. However, Xingyu has agreed with Xiangyu that the title of and all rights in the Dredger shall ultimately vest in Xingyu and Xiangyu in equal shares as if the Finance Lease Arrangement had not been carried out by way of procuring CMBFL to transfer 50% interest in the Dredger to Xiangyu directly or by entering into a transfer agreement with Xiangyu to effect the transfer of 50% interest in the Dredger from Xingyu to Xiangyu.

GUARANTEES AND SECURITY

The signing of the Finance Lease Agreement is conditional upon the execution of the Guarantee, the Personal Guarantee and the Accounts Receivable Pledge Agreement.

On 31 July 2013, the Company entered into the Guarantee in favour of CMBFL to secure the due performance of the obligations of Xingyu under the Finance Lease Agreement, including, among others, the payment obligations of rentals and other payments.

As an additional security for the payment obligations of Xingyu under the Finance Lease Agreement, on 31 July 2013, Xingyu entered into the Accounts Receivable Pledge Agreement with CMBFL to pledge the Accounts Receivable in favour of CMBFL to secure the due performance of the payment obligations of Xingyu to CMBFL under the Finance Lease Agreement.

On 31 July 2013, Mr. Liu provided the Personal Guarantee in favour of CMBFL for all the payment obligations and performance of the obligations of Xingyu under the Finance Lease Agreement and other related agreements.

INFORMATION ON THE GROUP

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.

INFORMATION ON CMBFL

CMBFL is principally engaged in the business of finance leasing and other financial services in the PRC. It is a wholly-owned subsidiary of China Merchant Bank.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, CMBFL and its ultimate beneficial owners are Independent Third Parties.

REASONS FOR AND BENEFITS OF THE FINANCE LEASE ARRANGEMENT

Xiangyu is an indirect wholly-owned subsidiary of the Company and Xingyu is regarded as a wholly-owned subsidiary of the Company by virtue of the Contractual Arrangements.

The Directors are of the view that the Finance Lease Arrangement would enhance the working capital position of Xingyu and Xiangyu by using the Dredger, and would allow Xingyu and Xiangyu to optimize its asset and debt structure through increasing

the percentage of long-term financing. There will not be any gain or loss accrued to the Group in its consolidated financial statements pursuant to the sale of the Dredger under the Dredger Purchase Agreement.

The Directors considered that the Finance Lease Arrangement was entered into on normal commercial terms after arm's length negotiation between the parties and the terms of each of the Dredger Purchase Agreement, the Finance Lease Agreement, the Guarantee and the Accounts Receivable Pledge Agreement are on normal commercial terms which are fair and reasonable and are in the interest of the Company and the Shareholders taken as a whole.

Mr. Liu and Ms. Zhou, being Directors of the Company, are considered to be materially interested in the transactions contemplated in the Finance Lease Arrangement, who abstained from voting at the Board meeting on 31 July 2013 to consider and approve the Finance Lease Arrangement.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Finance Lease Arrangement are more than 5% but less than 25%, the Finance Lease Arrangement constitutes a discloseable transaction of the Company under the Listing Rules and is subject to the notification and announcement requirements set out in Rule 14.33 of the Listing Rules.

By virtue of the Contractual Arrangements, Xingyu is regarded as a wholly-owned subsidiary of the Company. The provision of the Guarantee by the Company for the benefit of Xingyu in obtaining the Finance Amount under the Finance Lease Arrangement for conducting the Group's business operations in the PRC is therefore covered by the waiver granted by the Stock Exchange from strict compliance with the connected transaction rules under the Listing Rules in respect of the Contractual Arrangements. Details of such waiver are set out in the prospectus of the Company dated 8 June 2011.

Mr. Liu, being the controlling Shareholder, executive Director and Chief Executive Officer of the Company, is a connected person of the Company under the Listing Rules. The provision of the Personal Guarantee by Mr. Liu for the benefit of Xingyu amounts to financial assistance by the connected person for the benefit of the Group. Since such financial assistance will be provided by Mr. Liu on normal commercial terms or more favourable terms to the Group and no security over the assets of the Group will be granted in respect of the Personal Guarantee, the Personal Guarantee constitutes an exempt connected transaction of the Company under Rule 14A.65(4) of the Listing Rules, which is exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“Accounts Receivable”	the amounts payable to Xingyu by 龍口市南山西海岸人工島建設發展有限公司 (Longkou City Nanshan West Coast Artificial Island Construction Development Company Limited*) for the services provided by Xingyu under four reclamation dredging construction contracts and the subsequent contracts relating to 龍口市南山西海岸人工島 (Longkou City Nanshan West Coast Artificial Island), together with interest and other benefits derived from such amounts
“Accounts Receivable Pledge Agreement”	the accounts receivable pledge agreement dated 31 July 2013 executed by Xingyu in favour of CMBFL whereby Xingyu has agreed to pledge the Accounts Receivable in favour of CMBFL
“Board”	the board of Directors of the Company
“CMBFL”	CMB Financial Leasing Co., Ltd (招銀金融租賃有限公司), a company established in the PRC with limited liability
“CMB Yancheng”	China Merchant Bank, Yancheng Branch
“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
“Contractual Arrangements”	certain contractual arrangements made by Xiangyu with Xingyu and its shareholders, details of which are disclosed in the prospectus of the Company dated 8 June 2011
“Director(s)”	the director(s) of the Company
“Dredger”	a cutter suction dredger, named “Kaijin 18” and bearing hull No.BJXE

“Dredger Purchase Agreement”	the agreement dated 31 July 2013 entered into between CMBFL as the buyer and Xingyu and Xiangyu as the sellers, pursuant to which CMBFL has agreed to purchase the Dredger from Xingyu and Xiangyu at the Purchase Consideration
“Finance Lease Agreement”	the agreement dated 31 July 2013 entered into between CMBFL and Xingyu, pursuant to which CMBFL has agreed to lease back the Dredger to Xingyu at the Lease Consideration for a term of 48 months commencing from the payment date of the Purchase Consideration
“Finance Lease Arrangement”	a finance lease arrangement and transactions contemplated under the Dredger Purchase Agreement, the Finance Lease Agreement, the Guarantee, the Personal Guarantee and the Accounts Receivable Pledge Agreement
“Finance Amount”	the principal amount of approximately RMB85,000,000 (equivalent to approximately HK\$107,391,030) to be provided by CMBFL to Xingyu under the Finance Lease Agreement
“Group”	the Company and its subsidiaries
“Guarantee”	the guarantee dated 31 July 2013 executed by the Company in favour of CMBFL
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	an individual or a company who is independent of and not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates (as defined in the Listing Rules)

“Lease Consideration”	the total lease consideration of approximately RMB295,308,245 (equivalent to approximately HK\$373,099,488), comprising the initial rental of RMB198,290,000 (equivalent to approximately HK\$250,524,321), the principal amount (being the Finance Amount) of RMB85,000,000 (equivalent to approximately HK\$107,391,030) and the interest and tax of approximately RMB12,018,245 (equivalent to approximately HK\$15,184,138), subject to adjustment, to be paid by Xingyu to CMBFL under the Finance Lease Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Liu”	Mr. Liu Kaijin (劉開進), the controlling Shareholder, executive Director and Chief Executive Officer of the Company, and the spouse of Ms. Zhou
“Ms. Zhou”	Ms. Zhou Shuhua (周淑華), an executive Director and the spouse of Mr. Liu
“PBC”	The People’s Bank of China
“Personal Guarantee”	the personal guarantee dated 31 July 2013 executed by Mr. Liu in favour of CMBFL
“PRC” or “China”	The People’s Republic of China, excluding for the purpose of this announcement Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchase Consideration”	the amount of RMB283,290,000 (equivalent to approximately HK\$357,915,351) payable by CMBFL to Xingyu and Xiangyu for the purchase of the Dredger pursuant to the Dredger Purchase Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“subsidiary”	has the same meaning as in section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Xiangyu”	江蘇翔宇港建工程管理有限公司 (Jiangsu Xiangyu Port Constructing Project Administration Co., Ltd.*), a company established in the PRC with limited liability, which is an indirect wholly-owned subsidiary of the Company
“Xingyu”	江蘇興宇港建有限公司 (Jiangsu Xingyu Port Construction Company Limited*), a company established in the PRC with limited liability, which is treated as a wholly-owned subsidiary of the Company by way of the Contractual Arrangements
“%”	per cent.

For the purpose of this announcement, the exchange rate of HK\$1.00 = RMB0.7915 has been used for currency translation, where applicable. Such exchange rate is for illustration purposes and does not constitute representations that any amount in RMB or HK\$ has been, could have been or may be converted at such rate.

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

Hong Kong, 31 July 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 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.

* *For identification purpose only*