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 2012 AND INTERIM DIVIDEND

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 2012, together with the audited comparative figures for the six months ended 30 June 2011 as follows, which are prepared in accordance with Hong Kong Financial Reporting Standard ("**HKFRS**") and are presented in Renminbi ("**RMB**"):

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2012

		Six months ended 30 June	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Audited)
Revenue	*4*	**482,437**	461,577
Operating cost		**(302,546)**	(277,747)
Gross profit		**179,891**	183,830
Other income	*5*	**16,917**	26,937
Marketing and promotion expenses		**(3,466)**	(2,439)
Administrative expenses		**(24,022)**	(7,263)
Listing expenses		**—**	(11,093)
Finance costs		**(4,350)**	(2,355)
Profit before tax		**164,970**	187,617
Income tax expense	*6*	**(45,248)**	(52,170)
Profit for the period and total comprehensive income for the period	*7*	**119,722**	135,447

	Notes	Six months ended 30 June **2012** *RMB'000* **(Unaudited)**	2011 *RMB'000* (Audited)
Profit for the period and total comprehensive income for the period attributable to:			
Owners of the Company		**112,043**	135,447
Non-controlling interests		**7,679**	—
		119,722	135,447
Earnings per share	*8*		
— basic *(RMB)*		**0.14**	0.22
— diluted *(RMB)*		**0.14**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,050,776**	705,225
Prepaid land lease payments		**94,005**	—
Goodwill		**201**	—
Deposit paid for acquisition of property, plant and equipment		**—**	150
Accounts receivables due after one year	*10*	**218,874**	125,502
		1,363,856	830,877
CURRENT ASSETS			
Prepaid land lease payments		**2,410**	—
Accounts and other receivables	*10*	**744,734**	608,240
Pledged bank deposits		**65,000**	—
Bank balances and cash		**72,562**	125,788
		884,706	734,028
CURRENT LIABILITIES			
Accounts and other payables	*11*	**260,635**	138,158
Amounts due to directors		**29,868**	60,321
Amounts due to non-controlling interests of a subsidiary		**70,512**	—
Tax payable		**118,020**	111,445
Bank borrowings	*12*	**254,000**	25,000
Other borrowings		**32,368**	—
		765,403	334,924
NET CURRENT ASSETS		**119,303**	399,104
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,483,159**	1,229,981
CAPITAL AND RESERVES			
Share capital		**67,200**	67,200
Reserves		**1,282,147**	1,162,781
Equity attributable to owners of the Company		**1,349,347**	1,229,981
Non-controlling interests		**110,985**	—
TOTAL EQUITY		**1,460,332**	1,229,981
NON-CURRENT LIABILITY			
Deferred tax liabilities		**22,827**	—
		1,483,159	1,229,981

NOTES:

1. GENERAL AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands and its place of business in Hong Kong is located at office 19, 36th Floor, China Merchants Tower, Shun Tak Centre, Nos. 168–200 Connaught Road Central, Hong Kong.

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 Renminbi, which is also the functional currency of the Company.

2. REORGANISATION AND BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the purpose of listing the Company's shares on the Stock Exchange in 2011, the entities in the Group have undergone a series of reorganisation steps to rationalise the group structure (the "**Reorganisation**").

As part of the Reorganisation, Jiangsu Xiangyu Port Construction Project Administration Company Limited (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**") on 19 April 2011. Details of the principal terms of the Contractual Agreements are set out in the Company's prospectus dated 8 June 2011 (the "**Prospectus**") in the section headed "Contractual Arrangements".

As Jiangsu Xingyu, Xiangyu PRC and other companies comprising the Group have been under common control of Mr. Liu since their respective establishment date, the Reorganisation including the execution of the Contractual Arrangements is considered as a business combination under common control. Accordingly, Jiangsu Xingyu is accounted for as a subsidiary of the Company throughout the periods presented on a merger basis. The assets, liabilities and results 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.

The condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows include the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the period ended 30 June 2011 or since their respective date of incorporation or establishment.

3. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below which are applicable for new transactions that occur in the current period, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2011.

Basis of consolidation

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on transaction-by-transaction. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

Where the consideration transferred by the Group in a business combination includes assets resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as an asset is remeasured at subsequent reporting dates in accordance with HKAS 39 with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (which cannot exceed one year from the acquisition date), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the condensed consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units), that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the condensed consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

Share options granted to business associates

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the counterparties render services, unless the services qualify for recognition as assets.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRS issued by HKICPA:

- amendments to HKFRS 7 "Financial Instruments: Disclosures — Transfers of Financial Assets"; and
- amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets".

The application of the above amended 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 are used to make strategic decisions.

During the current reporting period, the Group has completed an acquisition of a subsidiary and due to such acquisition, the Group had introduced a new segment, Other Marine Business and currently, the Group had four main operating and reportable segments, namely (i) Capital and Reclamation Dredging Business; (ii) Environmental Protection Dredging and Water Management Business; (iii) Dredging Related Construction Business and (iv) Other Marine Business. The operating segments are managed separately as each business offers different services and requires different marketing strategies.

Capital and Reclamation Dredging Business refers to the capital and reclamation dredging services and related consultation services provided by the Group.

Environmental Protection Dredging and Water Management Business refers to dredging or water management services or constructions for promoting environmental interests and water quality mainly for inland rivers provided by the Group.

Dredging Related Construction Business refers to ancillary construction work related to the capital and reclamation dredging services provided by the Group.

Other Marine Business mainly comprises marine hoisting, installation, salvaging and other engineering services provided by the Group.

The following is an analysis of the Group's revenue and results by reportable segments:

	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)**
Segment Results					
Six months ended 30 June 2012					
Segment revenue	**213,570**	**143,793**	**61,590**	**63,484**	**482,437**
Segment profit	**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**	

	Capital and Reclamation Dredging Business *RMB'000* (Audited)	Environmental Protection Dredging and Water Management Business *RMB'000* (Audited)	Dredging Related Construction Business *RMB'000* (Audited)	Other Marine Business *RMB'000* (Audited)	Total *RMB'000* (Audited)
Six months ended 30 June 2011					
Segment revenue	461,577	—	—	—	461,577
Segment profits	183,830	—	—	—	183,830
Other income					26,937
Unallocated corporate expenses					(9,702)
Listing expenses					(11,093)
Finance costs					(2,355)
Group's profit before tax					187,617
Other information:					
Depreciation of property, plant and equipment	9,501	—	—	—	

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

Segment assets

	Capital and Reclamation Dredging Business	**Environmental Protection Dredging and Water Management Business**	**Dredging Related Construction Business**	**Other Marine Business**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
At 30 June 2012					
Segment assets	873,330	317,761	18,504	443,277	1,652,872
Prepaid land lease payments					96,415
Pledged bank deposits					50,000
Bank balances and cash					61,486
Other unallocated assets					387,789
Consolidated assets					2,248,562

	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*
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
At 31 December 2011					
Segment assets	876,337	169,320	—	—	1,045,657
Bank balances and cash					125,788
Other unallocated assets					393,460
Consolidated assets					1,564,905

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

5. OTHER INCOME

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Bank interest income	**1,015**	8
Government financial incentive *(note)*	**9,547**	26,929
Interest income in respect of non-current account receivables *(note 10)*	**6,275**	—
Others	**80**	—
	16,917	26,937

Note: Pursuant to a document issued by a PRC local government authority, one of the Company's PRC subsidiaries was granted financial incentive for a period of 3 years for its contribution to the economic development of the locality, provided it is duly registered in the locality and pays taxes according to tax laws. No other conditions are attached to the financial incentive.

In 2011, the PRC local government authority confirmed that the amount of such financial incentive the Group was entitled up to 30 June 2011 was RMB26,929,000. Accordingly, the Group recognised such amount as other income for the six months ended 30 June 2011.

In 2012, the PRC local government authority further confirmed that the amount of such financial incentive the Group was entitled for the six months ended 30 June 2012 was RMB9,547,000. Accordingly, the Group recognised such amount as other income for the six months ended 30 June 2012.

6. INCOME TAX EXPENSE

(i) 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.

(ii) PRC Enterprise Income Tax

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current tax:		
PRC Enterprise Income Tax	**46,097**	52,170
Deferred tax credit	**(849)**	—
	45,248	52,170

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Profit for the period has been arrived at after charging/(crediting) the following items:		
Depreciation of property, plant and equipment	**25,255**	10,073
Net foreign exchange (gain)/loss	**(652)**	656
Share-based payment expense	**7,323**	—
Gain on disposals of property, plant and equipment	**(46)**	—
Sub-contracting charges included in operating cost	**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	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**112,043**	135,447
	'000	*'000*
Number of shares		
Shares in issue/ weighted average number of shares for the purpose of basic and diluted earnings per share	**800,000**	612,154

The weighted average number of shares for the purpose of basic earnings per share for the period ended 30 June 2011 was calculated based on the number of shares issued, and also took into account the weighted average effect of the capital injection by Mr. Liu to the companies comprising the Group prior to Reorganisation. The number of shares for the period ended 30 June 2011 was also adjusted for the effect of the Capitalisation Issue.

No diluted earnings per share was presented for the period ended 30 June 2011 as there were no potential dilutive shares then in issue.

The computation of diluted earnings per share for the period ended 30 June 2012 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 for shares.

9. DIVIDENDS

Subsequent to the end of the current interim period, the Directors have determined that an interim dividend of HK2 cents per share (2011: nil) will be paid.

10. ACCOUNTS AND OTHER RECEIVABLES

The Group prepares an aged analysis for its accounts receivables based on the terms specified in the contracts governing the relevant projects. Most of the contracts with customers require them to make progress payments with reference to a pre-set percentage of the value of work completed within thirty days after the issuance of the progress certificate. The remaining balance is to be paid by the customers within thirty to sixty days after the project is completed and the customers receive payment from the project owners or at other specific dates as agreed in the contracts which may be over one year.

The following is an analysis of the Group's accounts and bills receivables by age, net of allowance for doubtful debts:

	At 30 June 2012 *RMB'000* **(Unaudited)**	At 31 December 2011 *RMB'000* (Audited)
Accounts and bills receivables:		
0–30 days	**162,437**	227,560
31–60 days	**60,239**	54,303
61–90 days	**14,313**	56,583
91–180 days	**209,462**	236,719
Over 180 days	**459,754**	101,511
	906,205	676,676
Deposits, prepayments and other receivables:		
Government financial incentive receivables	**30,089**	43,100
Deposits and prepayments	**16,124**	8,573
Rental deposits for chartered dredgers with short term leases	**244**	2,053
Rental receivables	**300**	300
Retention receivables	**4,486**	109
Others	**6,160**	2,931
	57,403	57,066
	963,608	733,742
Less: Amounts due within one year shown under currents assets	**(744,734)**	(608,240)
Amounts shown under non-current assets	**218,874**	125,502

Long-term receivables represent amounts due from a customer for a contract on certain construction works with payment period over one year. As at 30 June 2012, these receivables totalling RMB218,874,000 (31 December 2011: RMB125,502,000) was recognised according to the specific repayment terms in the contract. Interest will be charged from the customer in respect of such non-current accounts receivables balance at a rate of 10% per annum. During the six months ended 30 June 2012, interest income of about RMB6.3 million (2011: nil) was recognised.

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.

While the Group does not hold any collateral over the above balances, no impairment loss has been recognised because management considers that (i) the increase in the past due balance was due to the credit tightening measures in the PRC which should be temporary and that (ii) majority of the Group's customers are large state-owned enterprises with strong financial background and/or government support.

11. ACCOUNTS AND OTHER PAYABLES

The following is an analysis of the Group's accounts and bills payables by age, presented based on the invoice date:

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Accounts and bills payables:		
0–30 days	**89,327**	6,611
31–60 days	**48,673**	31,049
61–90 days	**2,238**	5,634
91–180 days	**7,972**	8,294
Over 180 days	**38,628**	29,109
	186,838	80,697
Other payables:		
Other payables and accruals	**61,690**	51,003
Receipts in advance	**4,822**	2,467
Others	**7,285**	3,991
	73,797	57,461
	260,635	138,158

12. BANK BORROWINGS

During the current reporting period, the Group raised bank loans of RMB199,000,000 (2011: RMB149,900,000). The Group's bank borrowings were also increased by RMB57,995,000 through acquisition of a subsidiary. As at 30 June 2012, the Group's bank borrowings mainly carried interest at variable market interest rates ranging from 6.56% to 8.53% (31 December 2011: 6.31% to 6.56%) per annum and with repayable on demand clause.

13. RELATED PARTY DISCLOSURES

(I) Related party transactions/balances

During the period, the Group paid rental of RMB46,000 (2011: RMB46,000) to certain companies controlled by Mr. Liu in respect of office premises.

In addition, the Group has made repayments to and advances from Mr. Liu during the periods ended 30 June 2012 and 2011. As at 30 June 2012, the amount due to Mr. Liu is RMB29,618,000 (2011: RMB60,153,000).

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

During the six months ended 30 June 2011, the Group's bank borrowings were supported by:

(a) corporate guarantee given by Xiangyu PRC.

(b) personal guarantee provided by Mr. Liu. The guarantee provided by Mr. Liu were released prior to the Listing of the Company on 20 June 2011.

At 30 June 2012, the Group's bank borrowings to the extent of RMB7,000,000 were secured by two properties owned by the Group's non-controlling interests.

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

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

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

Collaterals (iii) to (v) as stated in (a) and (b) above were released during the six months ended 30 June 2011.

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK2 cents per share for the six months ended 30 June 2012 (2011: nil). The date of closure of register of members of the Company for the purpose of determining the identity of shareholders to be entitled to receive the interim dividend and the payment date of the said interim dividend will be announced later.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period, the Company recorded a revenue of approximately RMB482.4 million, representing a year-on-year increase of 4.5%. During the period, the gross profit of the Company was approximately RMB179.9 million, representing a year-on-year decrease of 2.1%. Profit attributable to the shareholders of the Company ("**Shareholders**") was approximately RMB112.0 million. The Board resolved to pay an interim dividend of HK2 cents per Share.

Industry and Market Review

Affected by the international and domestic economic environment and the financial positions of local governments of the PRC, the industry generally faced challenges during the first half of the year. However, the prospects of the market is still promising and the medium-to-long term demand will be robust. In the long run, the "Twelfth Five-Year Plan" and the investments in water conservancy projects are positive elements to the industry. Meanwhile, as the PRC has put increasing focus on and investments in environment protection industries, environmental protection dredging business, though still in an infant stage, has a strong momentum in the PRC and it is expected to have a significant growth in demand in the next five years. Moreover, the dredging industry in certain countries in Southeast Asia are in the similar industry cycle as that in the PRC and it is expected there will be substantial opportunities and room for growth in the future.

Business Review

During the period, the Company continued to provide existing clients with high quality dredging services and actively expanded into new markets and diversified its client base. At the same time, the Company increased its investments in environmental protection dredging in such areas as capital, technology and human resources to maintain its leading position in the market. In addition, the Company further diversified its business through the acquisition of 江蘇蛟龍打撈航務工程有限公司 (Jiangsu Jiaolong Salvage Harbour Engineering Co. Ltd) ("**Jiangsu Jiaolong**") which is in line with the strategy of the Company. The Company also continued to strengthen its internal governance and improve its operation efficiency in order to enhance the core competitive edges of the Group.

During the period, the Company put more efforts in promotion and business expansion both domestically and in overseas markets. While enhancing its client base in developed markets, the Group are also actively exploring domestic and overseas markets. During the period, the Company had signed contracts for various types of dredging projects with the value of about RMB600 million, which ensured the future income of the Company. Meanwhile, the Company secured new clients from large non-state-owned enterprises such as Shandong Nanshan Group, indicating a more diversified client base of the Company. In addition, it is also worth to have in mind the Company's projects in negotiation and its expansion into overseas markets.

The Company has completed its environmental protection demonstration project in Wuhan. It recently won the bid and entered into a new contract for environmental protection dredging services for Nanhu environmental protection project in Wuhan, reflecting market recognition to the technological level and quality of the environmental protection dredging projects of the Company. In addition, the Company also actively carried out research and development and technological upgrading on relevant types of equipment for environmental protection dredging services, committing to building first class sludge treatment equipment for the domestic market.

Upon acquisition of Jiangsu Jiaolong, the Company gradually carried out post-investment management, assisted Jiangsu Jiaolong in its expansion of capacity and business. During the period, "Qinhanggong No. 1" — a large lift-on-lift-off ship of Jiangsu Jiaolong successfully launched its maiden voyage and some of Jiangsu Jiaolong's vessels also participated in the construction of the bridge linking Hong Kong, Zhuhai and Macao.

In addition, the Company's fleet was well utilized. The Company made reasonable deployment of the fleet and scheduled regular maintenance for the vessels based on the progress and requirements of different projects.

The Company put more focus on corporate governance, continuously enhanced the transparency of corporate information, improved its internal system, strengthened its supervision and complied with relevant regulations and rules. Meanwhile, the Company actively interacted with its domestic counterparts, and joined the China Dredging Association and China Water Transportation Construction Association as full members during the period.

During the period, the Company continued to implement various incentive programs, and carried out performance management based on the progress of the projects to drive the Company's operating results and lower the costs. Meanwhile, the Company continued to provide more training to the key staff members, recruited middle ranking and senior management personnel and motivated them with share options and bonuses to improve the operation efficiency.

Future Prospects

As the macroeconomic environment will improve, in the short term, the Company will put greater efforts to expand into new markets and maintain the Company's sustainable growth on the basis of the existing businesses. The Company will also capture the opportunities to gradually increase its investment and capacity, and accelerate the provision of environmental protection dredging services. In addition, the synergy effect from the merger with Jiangsu Jiaolong will also gradually be seen. Meanwhile, with the improvement of the market environment and the increase of business volume of the Company, the Company will also consider to further increase its investment in equipment and expand its capacity to meet the market demand. In the medium-to-long term, the demand in the industry will remain robust, and as the macroeconomic environment improves, the trend of the industry development will generally continue to move upward. The Company will also grasp opportunities when they arise to expand its capacity so as to capture more market shares.

Overall, although the first half of 2012 witnessed the short-term downturn in the industry, the market outlook is still very promising. Therefore, the Company is fully confident in its future prospects.

Financial Review

Overview

The Group has four main operating and reportable segments, namely (i) Capital and Reclamation Dredging Business; (ii) Environmental Protection Dredging and Water Management Business; (iii) Dredging Related Construction Business; and (iv) Other Marine Business.

Revenue

During the period, the Group recorded a slight growth in revenue. Revenue for the six months ended 30 June 2012 was about RMB482.4 million, representing an increase of about 4.5% as compared with about RMB461.6 million in the corresponding period of 2011.

To widen its income streams to areas with high market potentials, the Group has commenced its Environmental Protection Dredging and Water Management Business since late 2011. During the six months ended 30 June 2012, the Group recorded a revenue of about RMB143.8 million in this business segment. Further, during the period, the Group has obtained a sizeable contract in the Dredging Related Construction Business with reasonable return. As a result, the Group recorded revenue of about RMB61.6 million in this segment for the six months ended 30 June 2012. Further, subsequent to the completion of the acquisition of Jiangsu Jiaolong in February 2012, the Group has expanded into Other Marine Business that has contributed revenue of about RMB63.5 million to the Group for the six months ended 30 June 2012.

Capital and Reclamation Dredging Business decreased by about RMB248.0 million to about RMB213.6 million for the six months ended 30 June 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 RMB277.7 million for the six months ended 30 June 2011 to about RMB302.5 million for the six months ended 30 June 2012, representing an increase of about 8.9%. The increase in operating cost was in line with the increase in revenue. The Group recorded a gross profit of about RMB179.9 million for the six months ended 30 June 2012, representing a slight decrease of 2.1% as compared with the six months ended 30 June 2011 of about RMB183.8 million.

During the period, the gross profit margin of Capital and Reclamation Dredging Business increased from 39.8% for the six months ended 30 June 2011 to 44.5% for the six months ended 30 June 2012 as a result of the decrease in use of chartered dredgers after the Group acquiring two additional dredgers in the second half of 2011.

Lower gross profit margins are recorded for new businesses as there are certain start up costs. As a result, the overall gross profit margin of the Group decreased slightly from 39.8% for the six months ended 30 June 2011 to 37.3% for the six months ended 30 June 2012.

Other Income

The Group has obtained incentive from the local PRC government to support the growth of the Group. Other income decreased by about RMB10.0 million to about RMB16.9 million for the six months ended 30 June 2012 which was mainly due to the decrease in such incentive.

Marketing and Promotion Expenses

Marketing and promotion expenses for the six months ended 30 June 2012 remained at a reasonable level which is in line with the same period in 2011.

Administrative Expenses

Administrative expenses included share-based payment expense amounted to about RMB7.3 million related to the share options issued during the six months ended 30 June 2012. Administrative expenses excluding such one-off expenses for the six months ended 30 June 2012 was about RMB16.7 million.

Higher administrative expenses was recorded for the six months ended 30 June 2012 as compared with that for the six months ended 30 June 2011 of about RMB7.3 million which was mainly due to higher professional fees and management costs which incurred subsequent to its listing and also the inclusion of the administrative expenses of Jiangsu Jiaolong.

Income Tax Expense

Due to the decrease in profit before tax, income tax expense for the six months ended 30 June 2012 amounted to about RMB45.2 million, representing a decrease of about RMB7.0 million compared with the corresponding period in 2011.

Profit for the Period

As a combination effect of the above, the profit for the period decreased by about 11.6% from about RMB135.4 million for the six months ended 30 June 2011 to about RMB119.7 million for the six months ended 30 June 2012.

Earnings per Share

Earnings per share decreased by about 36.4% from RMB0.22 per share to RMB0.14 per share. Apart from the decrease in profit for the period, the decrease was mainly due to difference in weighted average number of shares of the Company ("**Shares**"). The Company was just listed by end of June 2011 and the new Shares issued upon listing only account for the calculation of the weighted average number of Shares from the date of listing to 30 June 2011. As a result, the weighted average number of Shares for the six months ended 30 June 2011 was considerably lower than the number of Shares for the six months ended 30 June 2012.

Financial Position, Liquidity and Financial Resources

The Group has remained at a sound financial resource level. As at 30 June 2012, total equity of the Group amounted to about RMB1,460.3 million (31 December 2011: RMB1,230.0 million).

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimise the costs of funds, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in Renminbi and Hong Kong dollars.

Included in net current assets were cash and various bank deposits totalling about RMB137.6 million as at 30 June 2012, representing an increase of about RMB11.8 million as compared with about RMB125.8 million as at 31 December 2011.

Due to the tightening of economic environment in the PRC since late 2011, the PRC Governmental projects are unavoidably affected and the collection therefrom has been slowed down. The Group's accounts and bills receivables as at 30 June 2012 increased by about RMB229.5 million to about RMB906.0 million. During the period ended 30 June 2012, the amount received from customers was about RMB273.7 million. The management considered that there is no recoverability problem as such receivables were mainly due from reputable state-owned enterprises. The increase in amount of overdue receivables as at 30 June 2012 did not impair the Group's liquidity status.

In order to roll out the Group's close collaboration with the PRC Governmental projects, the Group has widened its customer base to sizable PRC private enterprises for the six months ended at 30 June 2012.

Total liabilities of the Group as at 30 June 2012 were about RMB788.2 million (31 December 2011: RMB334.9 million). In the previous years before the Company became listed on the Stock Exchange, the Group's operations were mainly financed by its shareholders' injections and internal resources. By taking up new bank borrowings of about RMB199.0 million and that of about RMB58.0 million through acquisition of Jiangsu Jiaolong for the six months ended 30 June 2012, all of which are denominated in Renminbi and will mature within one year and are mainly at variable rates, the Group's gearing ratio (calculated by bank borrowings divided by total assets) increased to a more healthy level of 11.3% (31 December 2011: 1.6%).

Charge Over Assets of the Group

As at 30 June 2012, the Group's bank borrowings are supported by pledged bank deposits of about RMB65.0 million and, charges over certain of the Group's dredgers. There were also intra-group charge between two of the Company's wholly-owned subsidiaries as a result of a series of contracts pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu 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 Renminbi, 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 hedging contracts or any other interest rate related derivative financial instrument. However, the Group continues to monitor its related interest rate exposure closely.

Capital Commitments and Contingent Liabilities

Save for the capital commitment taken out by Jiangsu Jiaolong in respect of the construction and improvement of vessels which amounted to about RMB36.4 million, the Group did not have significant capital commitments committed but not provided for as at 30 June 2012.

The capital commitment as at 31 December 2011 mainly represented the acquisition costs of Jiangsu Jiaolong of about RMB127.5 million.

As at 30 June 2012, the Group did not have any material contingent liability (31 December 2011: nil).

Material Acquisitions and Disposals

Apart from the completion of the acquisition of Jiangsu Jiaolong in February 2012 and the acquisition of land in May 2012, there were no other material acquisitions or disposals during the period under review.

Listing Proceeds

As of 20 June 2011, 200,000,000 new Shares were issued at HK$3.19 per Share, resulting in gross proceeds from Listing which amounted to HK$638 million. Net proceeds after payment of all expenses related to listing was about HK$579 million (RMB468.3 million). Up to 30 June 2012, the net proceeds of about RMB464.7 million were used in the manner as stated in the Company's Prospectus and subsequent announcement dated 8 May 2012.

Employees and Remuneration Policy

As at 30 June 2012, the Group had a workforce of 585 employees (31 December 2011: 211). The increase in number of employees was due to taking into account of a subsidiary acquired in early 2012. Total staff cost for the six months ended 30 June 2012 was about RMB19.9 million (2011: RMB9.4 million). The Group's remuneration policy is basically determined by the performance of individual employees and the Directors and the market conditions. In addition to salaries and discretionary bonuses, employee benefits included pension contributions and share option scheme (the share option that could be granted to independent non-executive Directors are subject to the independence restrictions as set out in the Listing Rules).

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

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

During the six months ended 30 June 2012, 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 (or, as the case may be, would take effect) from 1 January 2012, 1 April 2012 or 31 December 2012 respectively.

With the introduction of the CG Code as amended with effect from 1 April 2012 ("**Revised Code**"), the Board's terms of reference was amended to be in line with the principles and code provisions of the Revised Code. As this interim period covers the period from 1 January 2012 to 30 June 2012 before and after the Revised Code took effect, all the corporate governance principles and code provisions mentioned herein shall refer to those stated in the CG Code as applied before 1 April 2012 and to those stated in the Revised Code as applied on and after 1 April 2012.

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 and the Revised Code (as the case may be) in Appendix 14 of the Listing Rules for the six months ended 30 June 2012 and there was no material deviation from the CG Code and the Revised Code (as the case may be).

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 2012 comprised Ms. Leung Mei Han (chairman), Ms. Peng Cuihong and Mr. Huan Xuedong, all of them are independent non-executive Directors.

To keep the audit committee's terms of reference in line with the Amendments, the Board adopted new terms of reference of the audit committee in March 2012.

The 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 2012 prior to recommending them to the Board for approval.

The unaudited consolidated interim financial statements for the six months ended 30 June 2012 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 2012 containing all the information required by Appendix 16 to the Listing Rules will be despatched to shareholders of the Company and available on the said 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, 13 August 2012

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. Leung Mei Han, Ms. Peng Cuihong and Mr. Huan Xuedong as Independent Non-executive Directors.