



翔宇疏浚控股有限公司

XIANGYU DREDGING HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 871

GLOBAL OFFERING



*Sole Global Coordinator, Lead Bookrunner
and Joint Lead Manager*



建银国际
CCB International

Co-bookrunner and Joint Lead Manager



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Sole Sponsor

Morgan Stanley

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



XIANGYU DREDGING HOLDINGS LIMITED

翔宇疏浚控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 200,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 20,000,000 Shares (subject to adjustment)
Number of International Offer Shares	: 180,000,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$4.07 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.10 per Share
Stock code	: 871

Sole Global Coordinator, Lead Bookrunner and Joint Lead Manager



Sole Sponsor

Morgan Stanley

Co-bookrunner and Joint Lead Manager



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VIII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

Please see "Risk Factors" for a discussion of certain risks that you should consider before investing in the Shares.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters, and in consultation with the Sole Sponsor) and us (for ourselves and on behalf of the Selling Shareholder) on the Price Determination Date. The Price Determination Date is expected to be on or around Monday, June 13, 2011 and, in any event, not later than Wednesday, June 15, 2011. The Offer Price will be not more than HK\$4.07 and is currently expected to be not less than HK\$3.19, unless otherwise announced. If, for any reason, the Offer Price is not agreed by Wednesday, June 15, 2011 between the Sole Global Coordinator (for itself and on behalf of the Underwriters, and in consultation with the Sole Sponsor) and us (for ourselves and on behalf of the Selling Shareholder), the Global Offering will not proceed and will lapse.

Applicants for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$4.07 for each Offer Share, together with a 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee, subject to refund if the Offer Price should be lower than HK\$4.07 as finally determined.

The Sole Global Coordinator (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range described in this prospectus (which is HK\$3.19 to HK\$4.07 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe or purchase, and to procure applicants for the subscription or purchase of, the Hong Kong Offer Shares, are subject to termination upon joint determination by the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold, pledged or transferred within the United States or to, or for the account or benefit of, U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

June 8, 2011

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications under
HK eIPO White Form service through the designated
website www.hkeipo.hk⁽²⁾ 11:30 a.m. on Monday, June 13, 2011

Application lists open⁽³⁾ 11:45 a.m. on Monday, June 13, 2011

Latest time to lodge **WHITE** and **YELLOW**
Application Forms 12:00 noon on Monday, June 13, 2011

Latest time to give **electronic application instructions**
to HKSCC⁽⁴⁾ 12:00 noon on Monday, June 13, 2011

Latest time to complete payment of **HK eIPO White Form**
applications by effecting internet banking transfer(s) or PPS
payment transfer(s) 12:00 noon on Monday, June 13, 2011

Application lists close 12:00 noon on Monday, June 13, 2011

Expected Price Determination Date⁽⁵⁾ Monday, June 13, 2011

Announcement of:

- the Offer Price;
- the level of the indication of interest in the International Offering;
- the level of applications in the Hong Kong Public Offering; and
- the basis of allotment under the Hong Kong Public Offering

to be published in the South China Morning Post (in English)
and the Hong Kong Economic Times (in Chinese) and on the
Stock Exchange's website at www.hkexnews.hk and our Company's
website at www.xiangyu.com.hk on or before Friday, June 17, 2011

Announcement of results of allocation in the Hong Kong
Public Offering (with successful applicants' identification
document numbers, or Hong Kong business registration numbers
where applicable) will be available through a variety of channels as described
in the section headed "How to Apply for Hong Kong Offer Shares
— Publication of Results" in this prospectus from Friday, June 17, 2011

Results of allocations for the Hong Kong Public Offering
will be available at www.tricor.com.hk/ipo/result with
a "search by ID" function Friday, June 17, 2011

Despatch of Share certificates or deposit of the Share
certificates into CCASS in respect of wholly or
partially successful applications on or before^{(6), (7) and (8)} Friday, June 17, 2011

EXPECTED TIMETABLE⁽¹⁾

Despatch of HK eIPO White Form e-Auto Refund payment instructions in respect of wholly and partially successful (if applicable) or wholly or partially unsuccessful applications on or before⁽⁹⁾ Friday, June 17, 2011

Despatch of refund checks in respect of wholly and partially successful (if applicable) or wholly or partially unsuccessful applications on or before⁽⁶⁾⁽⁷⁾ Friday, June 17, 2011

Dealings in Shares on the Stock Exchange expected to commence at 9:00 a.m. on. Monday, June 20, 2011

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
- (2) Applicants will not be permitted to submit an application to the HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing the payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, June 13, 2011, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares — Effect of bad weather on the opening of the application lists” in this prospectus. If the application lists do not open on Monday, June 13, 2011, the dates mentioned in this section headed “Expected Timetable” may be affected. A press announcement will be made by us in such event.
- (4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — How to apply electronically to HKSCC via CCASS” in this prospectus.
- (5) Please note that the Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or around Monday, June 13, 2011 and, in any event, not later than Wednesday, June 15, 2011. If, for any reason, the Offer Price is not agreed by Wednesday, June 15, 2011 between the Sole Global Coordinator (for itself and on behalf of the Underwriters, and in consultation with the Sole Sponsor) and us (for ourselves and on behalf of the Selling Shareholder), the Global Offering will not proceed and will lapse. Notwithstanding that the Offer Price may be fixed at below the maximum Offer Price of HK\$4.07 per Offer Share payable by applicants for Shares under the Hong Kong Public Offering, applicants who apply for Hong Kong Offer Shares must pay on application the maximum Offer Price of HK\$4.07 per Offer Share plus the brokerage fee of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005% but will be refunded the surplus application monies as provided in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.
- (6) Applicants who apply on WHITE Application Forms or HK eIPO White Form for 1,000,000 or more Hong Kong Offer Shares and have indicated in their applications their wish to collect (where applicable) refund checks and/or (where applicable) Share certificates in person may do so from our Hong Kong Share Registrar, from 9:00 a.m. to 1:00 p.m. on Friday, June 17, 2011 or any other date notified by us as the date of despatch of Share certificates and refund checks. Applicants being individuals who opt for personal collection must not authorize any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives bearing letters of authorization from their corporations stamped with the corporations’ chops. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar.

EXPECTED TIMETABLE⁽¹⁾

- (7) Applicants who apply on YELLOW Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund checks in person may collect their refund checks (if any) but may not elect to collect their Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund checks for applicants who apply on YELLOW Application Forms for Hong Kong Offer Shares is the same as that for WHITE Application Form applicants.
- (8) Uncollected Share certificates and refund checks will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms shortly thereafter. If you have applied for less than 1,000,000 Hong Kong Offer Shares or have applied for 1,000,000 Hong Kong Offer Shares or more but have not indicated in the Application Form that you wish to collect Share certificates and/or refund checks in person, your Share certificates (if applying by using a WHITE Application Form) and/or refund checks will be sent to the address on the Application Form on Friday, June 17, 2011 by ordinary post at your own risk. Further information is set out in the section headed "How to Apply for Hong Kong Offer Shares". **Share certificates will only become valid certificates of title provided that the Hong Kong Public Offering has become unconditional and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is expected to be at around 8:00 a.m. on Monday, June 20, 2011.**
- (9) e-Auto Refund payment instructions or refund checks will be issued in respect of wholly or partially unsuccessful applications and also in respect of wholly or partially successful applications if the final Offer Price is less than the price payable per Offer Share on application. If you apply through the HK eIPO White Form service by paying the application monies through a single bank account, you may have e-Auto Refund payment instructions (if any) despatched to your application payment bank account on or around Friday, June 17, 2011. If you apply through the HK eIPO White Form service by paying the application monies through multiple bank accounts, you may have refund check(s) sent to the address specified in your application instructions to the designated HK eIPO White Form Service Provider on or around Friday, June 17, 2011, by ordinary post and at your own risk. Part of the applicant's Hong Kong identity card number or passport number, or if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund check. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund checks.

For details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, the effect of bad weather and the despatch of refund checks and Share certificates, you should refer to the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

CONTENTS

	<i>Page</i>
Expected Timetable	i
Summary	1
Definitions	20
Glossary of Technical Terms	33
Forward Looking Statements	35
Risk Factors	36
Waivers from Strict Compliance with the Listing Rules	59
Information about this Prospectus and the Global Offering	61
Directors and Parties Involved in the Global Offering	65
Corporate Information	69
Industry	71
Regulatory Overview	79
History, Reorganization and Corporate Structure	87
Business	109
Contractual Arrangements	143
Relationship with Controlling Shareholders	160
Connected Transactions	167
Directors, Senior Management and Employees	174
Substantial Shareholders	183
Share Capital	185
Financial Information	188
Future Plans and Use of Proceeds	220
Underwriting	221
Structure of the Global Offering	231
How to Apply for Hong Kong Offer Shares	239

CONTENTS

	<i>Page</i>
Appendix I — Accountants' Report	I-1
Appendix II — Unaudited Pro Forma Financial Information	II-1
Appendix III — Profit Forecast	III-1
Appendix IV — Property Valuation Report	IV-1
Appendix V — Taxation and Foreign Exchange	V-1
Appendix VI — Summary of Constitution of the Company and Cayman Islands Company Law	VI-1
Appendix VII — Statutory and General Information	VII-1
Appendix VIII — Documents Delivered to the Registrar of Companies and Available for Inspection	VIII-1

SUMMARY

This summary is intended to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. However, we have a limited operating history. Our performance during the Track Record Period may not serve as an adequate basis to evaluate our business. You should consider the risks and difficulties frequently encountered by early-stage companies such as our Company. Our recent revenue growth should not be taken as indicative of the revenue growth, if any, that can be expected in the future. In addition, our limited operating history provides a limited historical basis for assessing the impact that critical accounting policies may have on our business and our financial performance. See “Risk Factors — Risks Relating to Our Industry and Our Business — Our limited operating history may not serve as an adequate basis to judge our future prospects and result of operations.”

OVERVIEW

We are the largest privately owned dredging company in China based on dredging volume in 2010, with market shares of 15.5% among privately owned dredging companies and 2.4% among all dredging companies in the PRC in 2010, according to a report we commissioned from Frost & Sullivan, a third party market research company, or the Frost & Sullivan Report. We are engaged in providing capital dredging, reclamation dredging, maintenance dredging and environmental protection dredging services. In addition, we provide dredging-related construction services, which include small-scale land reclamation construction, temporary road construction and soil compaction.

We began providing dredging services in the PRC in July 2007 and have achieved significant growth in recent years. We believe that we are well positioned to capture attractive opportunities in the fast-growing PRC dredging industry. The PRC dredging market has grown from 438 million cubic meters in total dredging volume in 2006 to 1,311 million cubic meters in 2010, representing a CAGR of 31.5%, according to the Frost & Sullivan Report. According to the same report, the existing capacity of qualified contractors in the PRC was almost fully utilized by the end of 2010, which resulted in a shortage of dredging capacity in the PRC. See “Industry — Overview of the PRC Dredging Market — Market Overview.” While China’s dredging market has historically been dominated by state-owned enterprises, we believe that the PRC dredging market will grow and that capacity constraints will provide significant growth opportunities for privately owned dredging companies like us. Privately owned dredging companies, taken together, accounted for an estimated 15.7% of the total dredging volume in China in 2010, according to the Frost & Sullivan Report. Our annual output from dredging and related services grew from 11.0 million cubic meters in 2008 to 29.9 million cubic meters in 2009 and 32.0 million cubic meters in 2010. Demand for dredging services in China is expected to increase because the PRC government is actively promoting large-scale infrastructure construction for transportation in response to the development of China’s economy. According to the Frost & Sullivan Report, the PRC dredging market is expected to grow at a CAGR of 27.1% from 2011 to 2015 in terms

SUMMARY

of dredging volume. In particular, the PRC maintenance and environmental protection dredging markets are forecasted to grow at CAGRs of 37.0% and 43.5%, respectively, during the same period in terms of dredging volume, according to the Frost & Sullivan Report.

Our two largest customers in terms of revenues during the Track Record Period, TDC Port and CWWEC, are subsidiaries of, respectively, (i) CCCC, the largest port design and construction company in China, and (ii) the Changjiang Waterway Bureau of the Ministry of Transport of the PRC. TDC Port and CWWEC have been our customers since 2007 and 2008, respectively. These customers have engaged us to undertake dredging work for projects in the Caofeidian Industrial Area, Dalian Changxingdao Harbor, Jingtang Harbor and Tianjin Port. These major projects, which last for years, have not only enhanced our reputation, but have also supported our rapid growth. We have also successfully developed these customer relationships into important strategic partnerships for securing long-term business, as described in “Business — Customers — Strategic Partnerships”. In January 2008 and May 2010, respectively, we entered into strategic partnership agreements with TDC Port and CWWEC, which we believe enhance our ability to secure new dredging projects and sustain the growth of our business. We have maintained relationships with our top five customers in 2010 for an average of over two years.

We are led by a project management team with an average of approximately 20 years of experience in the PRC dredging industry. Our extensive project management experience and strong technical team of professional experts enable us to engage in capital, maintenance, reclamation and environmental protection dredging work. We believe that our ability to provide a full line of high quality dredging services enables us to capture attractive opportunities in the fast-growing PRC dredging market.

We achieve efficiency and cost savings by using a flexible operation model, employing an experienced project management team and implementing preventive maintenance practices. We employ three modes of operation. We provide dredging services ourselves by using our own dredgers and employing dredgers that we charter from third parties depending on our production capacity and the availability of dredgers. In addition, we engage other dredging companies through subcontracting arrangements based on the workload or the timeframe of a particular project. Both chartering and subcontracting allow us to take on large projects in a short time frame without undertaking significant capital investment. We may alter our mode of operation after projects are underway, taking into consideration a variety of factors, such as fluctuations in the price of oil or spare parts, chartering costs, wages of crew members and our dredging capacity. This flexible operation model enables us to take on more projects, enhance dredger working efficiency rates and increase profits.

We believe that our flexible operation model, fleet of relatively young dredgers, preventative maintenance practices and extensive project management experience also allow us to achieve higher cost savings and profitability than our competitors. We achieved an average dredger working efficiency rate of approximately 83% in 2010, which was higher than the industry average of 70% in China, according to the Frost & Sullivan Report. We achieved a gross profit margin of 46.0%, 35.7% and 45.4% in 2008, 2009 and 2010, respectively. In addition, we intend to continue to make significant investments to expand the scale and scope of our dredging capacity in order to reduce our reliance on subcontractors. While subcontracting has been an important part of our flexible operation model, we believe that

SUMMARY

maintaining a relatively low proportion of subcontracting will help us to achieve higher gross profit margins. Further, we emphasize preventative maintenance to minimize downtime, extend vessel life and reduce replacement capital expenditure requirements.

Since most contracts that our customers subcontract to us relate to long-term, large-scale projects, our customers typically divide the work into projects covering different phases and offer individual contracts for each phase. Therefore, in order to engage in these large-scale projects, we generally enter into multiple contracts with a limited number of customers. In the years ended December 31, 2008, 2009 and 2010, our largest five customers accounted for 97.3%, 96.9%, and 99.3%, respectively, of our total revenues. During the same periods, our largest customer accounted for 49.7%, 54.1% and 51.7%, respectively, of our total revenues. Most of our customers are also our competitors. Substantially all of our contracts were subcontracted from our major customers during the Track Record Period. Since the large-scale projects which we have primarily worked on have had strict dredging contractor qualification requirements, including prior experience, financial conditions, certifications and availability of personnel, fleet and equipment, some of which we could not meet on our own, in the past we have not typically bid directly for contracts from project owners. However, we believe that we have developed close relationships with our customers and that they cannot easily replace us with other subcontractors.

During the Track Record Period, we rapidly expanded our customer base to build a strong pipeline of new business and developed strategic partnerships with our major customers, which we attribute to the high quality of our work and our strong reputation. While our major customers are typically not the project owners of the relevant projects, we have expanded our customer base, as described further in “Business — Our Dredging Contracts — Future Prospects — Non-binding Letters of Intent and Framework Agreement” and “— Customers — New Customers”, and we believe that continuing to expand our customer base will help us to reduce our reliance on a limited number of customers. In addition, the expansion of our dredging capacity and the improvement of our financial position have enabled us to source more contracts directly from project owners. For example, in August 2010, we entered into a non-binding five-year framework agreement to provide capital dredging for a project in Yancheng City, Jiangsu Province and a non-binding letter of intent to provide reclamation dredging for a project in Dongying Harbor, Shandong Province. Since the framework agreement and letter of intent are not legally binding and are subject to signing of definitive contracts, these projects may not proceed or generate any revenue. However, the projects in Yancheng City and Dongying Harbor are major transportation development projects in China, and we expect to provide dredging services directly to the owners of these projects, rather than acting as a subcontractor. In addition, we were engaged in recent months by contractors of project owners for new projects, including projects in Yingkou Harbor, Liaoning Province and Tianjin Port in Tianjin.

In addition, we plan to further expand and diversify our service offerings by building up our environmental protection dredging business. We entered into a non-binding letter of intent, a non-binding cooperation memorandum and a framework agreement to undertake environmental protection dredging projects in Wuhan City, Hubei Province in July 2010, March 2011 and April 2011, respectively, all of which are subject to the signing of definitive contracts with the relevant customers and the successful commencement of the relevant projects and therefore may not proceed or generate any revenue. In addition, in May 2011, we entered into an agreement with the Yandu Management Company in respect of an environmental protection dredging project in Yandu District of Yancheng City, Jiangsu Province.

SUMMARY

Growth in demand for our dredging services and expansion of our capacity contributed to significant increases in our revenue and profits during the Track Record Period. For the years ended December 31, 2008, 2009 and 2010, our revenue was RMB133.3 million, RMB346.5 million and RMB374.9 million, respectively. Our profit and total comprehensive income for the year increased from RMB45.7 million in 2008, to RMB88.8 million in 2009, and to RMB95.0 million in 2010.

OUR STRENGTHS

We believe we have the following competitive strengths:

- we are the largest privately owned dredging company in the PRC based on dredging volume in 2010 and are well-positioned to capture attractive opportunities in the fast-growing PRC dredging industry;
- we have cultivated strong client relationships and have a strong project pipeline that includes large-scale projects with prestigious clientele;
- we possess a strong technical team and extensive project management experience, which enable us to provide a full line of high quality dredging services, selectively engage in profitable projects and efficiently execute our projects;
- we have a young and versatile fleet of dredgers, flexible and profitable operation model and preventive maintenance practices, which contribute to our high dredger working efficiency rates and high profit margins; and
- we have experienced senior management who possess in-depth knowledge of our industry.

You can find a more detailed discussion of our principal competitive strengths in the section headed “Business — Our Strengths” in this prospectus.

OUR STRATEGIES

Our objective is to enhance our position as the largest privately owned dredging company in China based on dredging volume in China by implementing the following strategies:

- expand our capacity to capture attractive growth opportunities;
- increase and diversify our service offerings;
- firmly establish operations in other geographical regions in China;
- further improve our cost structure, operational efficiency and service quality; and
- pursue strategic acquisitions.

You can find a more detailed discussion of our principal business strategies in the section headed “Business — Our Strategies” in this prospectus.

SUMMARY

OUR HISTORICAL ORDER BACKLOG

The following chart sets forth the order backlog information of our dredging services business during the Track Record Period.

	2008	2009	2010
	(RMB in millions)		
Backlog order beginning balance ⁽¹⁾	16.2	138.0	110.2
New contracts signed	222.9	269.9	1,409.5
Orders completed ⁽²⁾	101.1	297.7	375.4
Backlog order ending balance ⁽³⁾	138.0	110.2	1,144.3

⁽¹⁾ Includes all backlog orders on a contract basis, excluding non-binding framework agreements and letters of intent as of January 1 of the respective year.

⁽²⁾ Figures provided are on a pre-tax basis.

⁽³⁾ As of December 31 of the respective year.

Our order backlog ending balance decreased from December 31, 2008 to December 31, 2009 despite a higher aggregate contract value of new contracts signed in 2009 than in 2008 because we completed and received payments for a substantially greater value of work in 2009 than in 2008. Our ending balance increased significantly from December 31, 2009 to December 31, 2010 because we entered into a greater number of contracts with a substantially greater aggregate contract value in 2010 than in 2009. In addition, all of the major contracts we entered into in 2010 had terms that extended beyond the end of that year. The ending balance of our order backlog fluctuated significantly during the Track Record Period, and it may continue to fluctuate significantly in the future due to factors such as our ability to enter into new contracts, the contract value and term of the contracts we enter into, the value of work we are able to complete and payments we receive in any given year.

REVENUE BY BUSINESS SEGMENT

During the Track Record Period, we generated our revenue from two operating segments: (i) our dredging business and (ii) our dredging-related construction business.

The following table sets forth our revenue contributed by each of our business segments and as a percentage of our total revenue for the periods indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Dredging business	97,804	73.3%	287,967	83.1%	362,766	96.8%
Dredging-related construction business	35,545	26.7%	58,582	16.9%	12,117	3.2%
Total revenue	133,349	100.0%	346,549	100.0%	374,883	100.0%

SUMMARY

REVENUE BY TYPE OF DREDGING

The following table sets forth revenue contributed by each of our capital and reclamation dredging and maintenance dredging businesses and as a percentage of our total revenue for the periods indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Capital and reclamation dredging ⁽¹⁾	133,349	100.0%	344,552	99.4%	372,264	99.3%
Maintenance dredging ⁽¹⁾	—	—	1,997	0.6%	2,619	0.7%
Total revenue⁽¹⁾	133,349	100.0%	346,549	100.0%	374,883	100.0%

⁽¹⁾ Revenue from capital and reclamation dredging and maintenance dredging businesses include revenue from both our dredging and dredging-related construction businesses.

REVENUE BY PROJECT

The following table sets forth revenue contributed by each of our projects and as a percentage of our total revenue for the periods indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Caofeidian Industrial Area	100,828	75.6%	259,450	74.9%	183,068	48.8%
Dalian Changxingdao Harbor . .	28,930	21.7%	47,975	13.8%	59,008	15.8%
Qingdao Industrial Area	—	—	35,609	10.3%	—	—
Jingtang Harbor	—	—	—	—	101,262	27.0%
Tianjin Port	—	—	—	—	10,642	2.8%
Others	3,591	2.7%	3,515	1.0%	20,903	5.6%
Total revenue	133,349	100.0%	346,549	100.0%	374,883	100.0%

CONTRACTUAL ARRANGEMENTS

In China, enterprises engaging in dredging business must have a general contracting certificate for port and waterway construction (港口與航道工程施工總承包企業資質) or a specialty contracting certificate for waterway construction (航道工程專業承包企業資質). One of the requirements for issuance of either such certificate by the relevant PRC authorities is that the applicant enterprise must be the registered owner of a vessel or vessels with the stipulated functions. Under the relevant PRC laws, the Maritime Safety Administration of the PRC will not register the ownership of a vessel to an enterprise unless at least 50% of its registered capital has been contributed by Chinese investors. As a result, foreign investors cannot own more than a 50% equity interest in any enterprise which owns vessels for conducting a dredging business. Our Group has determined that Xiangyu PRC own 50% of interest in the relevant vessels, being the maximum percentage that a foreign investor may own under PRC laws to register the ownership of the relevant vessels for certain commercial reasons. In addition, our Group intends to participate in dredging projects which forbid any involvement of foreign-invested companies under PRC laws. Even with regard to certain dredging projects in which foreign-invested

SUMMARY

companies are technically allowed to engage under PRC laws, foreign-invested companies find it difficult, in common practice, to secure dredging business opportunities. For these reasons, our Company does not own any equity in the PRC Operational Entity, but rather controls the PRC Operational Entity through the Contractual Arrangements.

Pursuant to the Contractual Arrangements, we conduct our business operation indirectly in the PRC through the PRC Operational Entity by way of the Contractual Arrangements. Although our Group does not have any direct or indirect equity interest in the PRC Operational Entity, we manage to maintain effective control over the financial and operational policies of the PRC Operational Entity and are entitled to the economic benefits derived from the operations of the PRC Operational Entity through the Contractual Arrangements.

The Contractual Arrangements consist of: (i) the Composite Services Agreement; (ii) the Option Agreement; (iii) the Proxy Agreement; (iv) the Equity Pledge Agreement; and (v) the Vessel Pledge Agreements.

These Contractual Arrangements effectively transfer the economic benefits of the PRC Operational Entity and pass the risks associated therewith to Xiangyu PRC, and on this basis, the financial position and operating results of the PRC Operational Entity are included in our combined financial statements. Revenue generated from the PRC Operational Entity accounted for approximately 99.9%, 100.0% and 100.0% of our total revenue in the years ended December 31, 2008, 2009 and 2010, respectively. Furthermore, 100.0%, 100.0% and 129.5% of our total net profit was derived from the PRC Operational Entity in each of these periods. Net profit derived from the PRC Operational Entity was greater than 100% of our total net profit in 2010 primarily due to net losses incurred by certain subsidiaries of our Company.

As advised by our PRC Legal Advisers, the Contractual Arrangements are in compliance with all existing PRC laws and regulations and the provisions of the respective articles of association of the relevant companies that are incorporated in the PRC. The respective current businesses and operations of each of Xiangyu PRC and the PRC Operational Entity, as described in this prospectus, are within its respective business scope as approved by the competent government authorities in the PRC and have not been found by any PRC governmental authorities to be in violation of its respective permitted business scope. Each of Xiangyu PRC and the PRC Operational Entity has obtained all necessary approvals for its business and in respect of the Contractual Arrangements.

PRE-IPO INVESTMENTS

Mr. Liu, Wangji Limited and (i) Hong Jun and (ii) Apex Ally entered into the HJ Pre-IPO Note Purchase Agreement and AA Pre-IPO Note Purchase Agreement, respectively, on September 7, 2010 and October 4, 2010, pursuant to which Hong Jun and Apex Ally advanced to Wangji Limited the sums of HK\$230 million and HK\$153 million by way of issue and subscription of the HJ Pre-IPO Notes and AA Pre-IPO Notes, respectively.

In connection with the Pre-IPO Note Purchase Agreements, among other pledges, (i) 100% of the issued share capital of each of our Company, Power Wealth BVI and Power Wealth HK, (ii) the entire registered capital of Xiangyu PRC and (iii) the 50% interest held by Xiangyu PRC in each of the Kaijin No. 1 and Kaijin No. 3 dredgers were pledged to Hong Jun and Apex Ally. Pursuant to the Pre-IPO Note Purchase Agreements, these pledges will be released upon Listing.

SUMMARY

When Wangji Limited and (i) Hong Jun and (ii) Apex Ally entered into the HJ Pre-IPO Note Purchase Agreement and AA Pre-IPO Note Purchase Agreement, they also entered into the HJ Pre-IPO Warrant Agreement and AA Pre-IPO Warrant Agreement, respectively. Pursuant to the Pre-IPO Warrant Agreements, if the consolidated net profit of our Group for the year ending December 31, 2011 is less than RMB300 million and the Actual Valuation (as defined in the section headed “History, Reorganization and Corporate Structure”) of our Group is less than HK\$2,600 million (if the Exit (as defined in the section headed “History, Reorganization and Corporate Structure”) is consummated on or before the first anniversary of the respective issuance date of the Pre-IPO Warrants) or less than HK\$3,500 million (if the Exit is consummated after the first anniversary of the respective issuance date of the Pre-IPO Warrants), the holders of the Pre-IPO Warrants shall be entitled to collect compensation from Wangji Limited.

For details of the Pre-IPO investments, please see the section headed “History, Reorganization and Corporation Structure — Pre-IPO Investments”.

Pursuant to the Hong Kong Underwriting Agreement, the Listing will not proceed if the Pledges (excluding the personal guarantees provided by Mr. Liu and the pledges over the entire issued share capital of Wangji Limited pursuant to the Pre-IPO Notes or the Pre-IPO Warrants (where applicable)) have not been effectively discharged or released prior to 8:00 a.m. on the Listing Date. For details, please see the section headed “Underwriting”.

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth a summary of our combined financial information as of and for the years ended December 31, 2008, 2009 and 2010, extracted from the Accountants’ Report set out in Appendix I to this prospectus.

The results were prepared on the basis of presentation as set out in the Accountants’ Report. The summary combined financial information should be read in conjunction with the combined financial statements set out in the Accountants’ Report, including the related notes.

Summary Combined Statements of Comprehensive Income Data

	Year ended December 31,		
	2008	2009	2010
	(in thousands of RMB, except earnings per share data)		
Revenue	133,349	346,549	374,883
Operating cost	(71,987)	(222,937)	(204,823)
Gross profit	61,362	123,612	170,060
Other income	4,292	4,803	26
Marketing and promotion expenses	(820)	(1,779)	(2,979)
Administrative expenses	(2,093)	(3,348)	(6,267)
Listing expenses	—	—	(21,531)
Finance costs	(816)	(1,317)	(3,640)
Profit before tax	61,925	121,971	135,669
Income tax expense	(16,261)	(33,130)	(40,639)
Profit and total comprehensive income for the year	45,664	88,841	95,030
Earnings per share			
Basic (RMB)	<u>0.57</u>	<u>0.80</u>	<u>0.38</u>

SUMMARY

Summary Combined Statements of Financial Position Data

	As at December 31,		
	2008	2009	2010
	(in thousands of RMB)		
NON-CURRENT ASSETS			
Property, plant and equipment	43,272	40,407	376,300
Deposit paid for acquisition of property, plant and equipment . . .	18,700	28,494	273
Rental deposits	1,000	3,000	—
	<u>62,972</u>	<u>71,901</u>	<u>376,573</u>
CURRENT ASSETS			
Trade and other receivables	65,707	230,249	280,440
Amount due from a director	29,216	82,121	—
Bank balances and cash	973	1,764	12,520
	<u>95,896</u>	<u>314,134</u>	<u>292,960</u>
CURRENT LIABILITIES			
Trade and other payables	44,535	130,009	127,678
Amount due to a director	11,382	11,395	26,464
Tax payable	16,664	49,503	39,185
Secured bank borrowings	7,500	27,500	40,000
	<u>80,081</u>	<u>218,407</u>	<u>233,327</u>
NET CURRENT ASSETS	<u>15,815</u>	<u>95,727</u>	<u>59,633</u>
NET ASSETS	<u>78,787</u>	<u>167,628</u>	<u>436,206</u>
CAPITAL AND RESERVES			
Paid-in-capital/share capital	39,406	39,406	39,451
Reserves	39,381	128,222	396,755
TOTAL EQUITY	<u>78,787</u>	<u>167,628</u>	<u>436,206</u>

SUMMARY

Summary Combined Cash Flow Data

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Net cash from operating activities	44,412	45,218	75,663
Net cash used in investing activities	(47,092)	(63,123)	(91,446)
Net cash from financing activities	1,988	18,696	26,539
Net increase/(decrease) in cash and cash equivalents	(692)	791	10,756
Cash and cash equivalents at the end of the period	973	1,764	12,520

RETENTION AND TRADE RECEIVABLES ANALYSIS

Certain of our contracts with our customers contain a retention clause pursuant to which our customers withhold a portion of the value of the work performed each month, typically 5%, for a retention period of typically about one year after the completion of our work under the relevant contract in order to cover any defects in the quality of our work. We recognize this portion of our revenue and the corresponding retention receivables when we have completed substantial work under the relevant contract in the later stage of the relevant project.

We recognize revenue from our dredging and dredging-related construction services when the services are rendered. In terms of payment, however, most of our contracts require our customers to make monthly progress payments with reference to the value of work completed at a certain percentage (typically 70% to 80%) of the value of work completed in the previous month, within thirty days after we issue a monthly progress certificate to the customer specifying the value of the work completed during the relevant month. Under these contracts, the remaining balance, which is typically 20% to 30% of the value of work completed or less under contracts that have retention clauses, is to be paid by our customers within thirty to sixty days after completion of the project audit work on completed projects, during which time the project owner checks the quality of the completed work. Therefore, until such tail period following the completion of the project and the project audit work concludes and we collect the remaining portion (for example, 20% to 30%, or less under contracts that have retention clauses) of the value of work we performed, this amount remains as trade receivables on our statement of financial position. This arrangement causes us to accumulate trade receivable balances for projects that have reached later stages but have not yet been completed.

The following table sets forth our trade receivables turnover days for the Track Record Period:

	Year ended December 31,		
	2008	2009	2010
Trade receivables turnover days ⁽¹⁾	<u>87</u>	<u>146</u>	<u>210</u>

⁽¹⁾ Trade receivables turnover days are equal to the average balance of trade receivables at the beginning and the end of the relevant year divided by revenue for such year and multiplied by 365.

SUMMARY

The increase in our trade receivables turnover days in 2009 was due to a combination of factors, including the expansion of our business, especially near the end of the year, the mature stage of many of our projects at year-end and late payments by certain of our customers. In 2010, the continued expansion of our business, including new contracts that had duration terms which extended beyond year-end, as well as late payments by certain of our customers contributed to our stable balance of trade receivables at the beginning and end of the year resulting in higher trade receivables turnover days in 2010 than in 2009 which had a relatively low balance of trade receivables at the beginning of the year and a relatively high balance at year-end. See “Financial Information — Analysis of Selected Statement of Financial Position Items — Trade and Other Receivables Analysis” for more information. As of April 30, 2011, RMB20.7 million of the amount of our trade receivables that were overdue as of December 31, 2010 had been settled.

Our trade receivables, net of allowance on trade receivables, were RMB60.7 million, RMB215.7 million and RMB216.1 million as of December 31, 2008, 2009 and 2010, respectively, of which RMB46.0 million, RMB137.6 million and RMB28.2 million were past due but not impaired as of December 31, 2008, 2009 and 2010, respectively. Our customers are typically state-owned enterprises and governmental entities, which we believe do not represent a credit risk. We believe that late payments from customers were partly due to late payments to certain of our customers by the relevant project owners, which are also generally state-owned enterprises and government entities. These late payments by project owners were due in part to the complicated internal approval procedures for government entities and state-owned enterprises, such as audits and approvals by the relevant government authorities. During the Track Record Period and up to the Latest Practicable Date, we did not have any disputes with our customers regarding their late payments.

We have undertaken measures aimed at reducing our trade receivables turnover days. Before accepting any new customer, we assess the potential customer’s credit quality and define its credit limits based on the reputation of the customer within the industry. We regularly review our customers’ payment history. We also review the aging of our trade receivables on a regular basis. In addition, our project managers closely monitor the status of payment by our customers.

For additional information on trade receivables, please see “Financial Information — Analysis of Selected Statement of Financial Position Items — Trade and Other Receivables Analysis.”

WORKING CAPITAL

During the Track Record Period, we maintained adequate working capital for our operations as cash and cash equivalents on hand and cash flows from operations were sufficient to meet our cash needs with minimal borrowing. In 2008, 2009 and 2010, we generated net cash from operating activities of RMB44.4 million, RMB45.2 million and RMB75.7 million, respectively, and as of December 31, 2008, 2009 and 2010, we had net current assets of RMB15.8 million, RMB95.7 million and RMB59.6 million, respectively. Although our gross profit margin decreased from 46.0% in 2008 to 35.7% in 2009, principally due to the increase in operating cost of our dredging projects in 2009, our gross profit margin increased to 45.4% in 2010, principally due to a significant decrease in subcontracting costs as we decreased the use of subcontractors by expanding our own dredging capacity, and an improvement of our average dredger working efficiency rate. While we expect our gross profit margin to decrease somewhat in future periods due to start-up costs relating to projects that started in late 2010 and early 2011 and other operating costs, we do not expect that this decrease will have any material adverse effect

SUMMARY

on our ability to maintain adequate working capital based on our expected cash and cash equivalents on hand and our operating cash flow. Similarly, our current ratio (the ratio of current assets to current liabilities) increased from 1.2 as of December 31, 2008 to 1.4 as of December 31, 2009, primarily due to an increase in trade receivables, but decreased to 1.3 as of December 31, 2010. Our current ratio was significantly but temporarily reduced in mid 2010 due to our purchase of two dredgers in the second quarter of 2010, which was financed by a short-term loan from our Director. Going forward we do not expect our current ratio to have any material adverse effect on our ability to maintain adequate working capital based on our expected cash and cash equivalents on hand and our operating cash flow. Furthermore, while our average trade receivable turnover days increased from 87 in 2008 to 146 and 210 in 2009 and 2010, respectively, our liquidity was not materially adversely affected as our average trade payable turnover days were comparable in the respective periods, at 102, 124 and 194 in 2008, 2009 and 2010, respectively and therefore, the timing of our cash inflows and outflows relating to operating activities was generally consistent in each of those years. Our liquidity has also been supported by our maintenance of a low gearing ratio (the percentage of total debt to total assets) of 4.7%, 7.1% and 6.0% in 2008, 2009 and 2010, respectively, which we believe represents a relatively low level of debt to service in comparison to the size of our Company. Since we do not have inventory, our ratio of current assets less stock to current liabilities, or quick ratio, was substantially the same as our current ratio during the Track Record Period and therefore did not impact on our liquidity.

As of April 30, 2011, we had cash and cash equivalents of RMB15.2 million. Taking into account the net proceeds available to us from the Global Offering, cash and cash equivalents on hand and our operating cash flow, our Directors are of the opinion that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus. For additional details of the risks and uncertainties relating to our working capital, see “Risk Factors — Risks Relating to Our Industry and Our Business — We commit to pay significant costs before receiving payment from our customers and if we are unable to collect our accounts receivable or suffer impairment losses, our liquidity, financial condition and results of operation may be materially and adversely affected” and “Risk Factors — Risks Relating to Our Industry and Our Business — We require substantial amounts of capital for our operation and expansion”.

PROFIT FORECAST FOR THE SIX MONTHS ENDING JUNE 30, 2011

The Directors believe that, in the absence of unforeseen circumstances and on the basis of the assumptions as set out in “Appendix III — Profit Forecast” to this prospectus, our Company’s profit attributable to owners of our Company for the six months ending June 30, 2011 is unlikely to be less than RMB94 million. On the basis of the prospective financial information and the assumption that our Company had been listed since January 1, 2011 and a total of 800,000,000 Shares were issued and outstanding during the entire period, the pro forma forecast earnings per Share for the six months ending June 30, 2011 is unlikely to be less than RMB0.12.

SUMMARY

The Directors expect our revenue in the six months ending June 30, 2011 to increase as compared to our revenue in the six months ended June 30, 2010 due to the expansion of our business and an increase in our number of projects in the first half of 2011. Notwithstanding the expected increase in our revenue, our gross profit margin in the six months ending June 30, 2011 is expected to decrease as compared with that in the six months ended June 30, 2010 as a result of (a) start-up costs relating to our work on projects that newly started in late 2010 or early 2011; (b) the prudent output level we have forecasted to safely buffer for any uncertainties in these newly started projects; and (c) the higher operating costs we have budgeted for in the six months ending June 30, 2011.

We have undertaken to the Stock Exchange that the interim report of our Group for the six months ending June 30, 2011 will be audited pursuant to Rule 11.18 of the Listing Rules.

OFFERING STATISTICS⁽¹⁾

	<u>Based on an Offer Price of HK\$3.19 per Share</u>	<u>Based on an Offer Price of HK\$4.07 per Share</u>
Market capitalization of the Shares ⁽²⁾	HK\$2,552 million	HK\$3,256 million
Unaudited pro forma adjusted combined net tangible asset per Share ⁽³⁾	HK\$1.36	HK\$1.57

Notes:

- (1) All statistics in this table are prepared without taking into account the following: (i) the 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee and (ii) any Shares which may be issued upon exercise of options that may be granted under the Share Option Scheme.
- (2) The calculation of market capitalization is based on 800,000,000 Shares expected to be in issue immediately following the Global Offering and the Capitalization Issue.
- (3) The calculation of the unaudited pro forma adjusted combined net tangible asset per Share is based on 800,000,000 Shares expected to be in issue immediately following the Global Offering and the Capitalization Issue and the respective Offer Prices of HK\$3.19 and HK\$4.07, without taking into account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option.

SUMMARY

USE OF PROCEEDS

Assuming the Offer Price is HK\$3.63 per Offer Share (being the mid-point of the indicative Offer Price range), we estimate that the aggregate net proceeds to us from the Global Offering will be approximately HK\$645.0 million, after deducting the underwriting fees and other estimated expenses payable by us in connection with the Global Offering. We intend to use the net proceeds from the Global Offering as follows:

- (a) approximately 80%, or HK\$516.0 million, will be used for the purchase of dredgers and dredging equipment. We estimate that these purchases will require capital expenditures of approximately HK\$564 million. The ownership of these dredgers and equipment (including environmental protection dredging equipment) is expected to be split equally between Xiangyu PRC and the PRC Operational Entity.
- (b) approximately 7%, or HK\$45.1 million, will be used for the improvement of existing equipment and machinery of dredgers.
- (c) approximately 3%, or HK\$19.4 million, will be used to support the expansion of our business including the setting up of new project offices and computerization of management information systems.
- (d) approximately 10%, or HK\$64.5 million, will be used for working capital and other general corporate purposes.

The allocation of the proceeds described in (b) through (d) above will be adjusted on a pro-rata basis in the event that the Offer Price is fixed below or above the mid-point of the indicative price range. If the Offer Price is set at the lowest end of the price range (HK\$3.19), the net proceeds will be approximately HK\$561.1 million. If the Offer Price is set at the highest end of the price range (HK\$4.07), the net proceeds will be approximately HK\$729.2 million.

We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholder pursuant to the Over-allotment Option. We estimate that the Selling Shareholder will receive HK\$104.0 million net proceeds, assuming the Over-allotment Option is exercised in full, and assuming an Offer Price of HK\$3.63 per Share (being the mid-point of the indicative Offer Price range), after deducting the estimated expenses payable by the Selling Shareholder.

Our Group will control costs and identify appropriate targets for the planned use of proceeds described above, including, in particular, the expenditure referred to in paragraphs (a) and (b) above. In the event that the actual capital expenditure exceeds the respective net proceeds obtained from the Global Offering, our Group would then consider whether to utilize our own resources or to further raise funds.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes or if we are unable to implement any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorized financial institutions.

SUMMARY

DIVIDEND POLICY

We may distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. The Board will review dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- our result of operations;
- our cash flows;
- our financial condition;
- our Shareholders' interests;
- general business conditions and strategies;
- our capital requirements;
- the payment by our subsidiaries of cash dividends to us; and
- other factors the Board may deem relevant.

We are a holding company incorporated in the Cayman Islands. Our ability to pay dividends depends substantially on the payment of dividends to us by our subsidiaries in China. In particular, each of our PRC subsidiaries may pay dividends only out of its accumulated distributable profits, if any, determined in accordance with its articles of association, and the accounting standards and regulations in China. Moreover, pursuant to relevant PRC laws and regulations applicable to our subsidiaries in the PRC, each of our PRC subsidiaries is required to set aside a certain amount of its accumulated after tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends. Furthermore, if any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to us.

Except as mentioned in the following paragraph, we currently intend to adopt, after our Listing, a general annual dividend policy of declaring and paying dividends on an annual basis of no more than 20% of our distributable net profit attributable to our Group for any particular financial year.

We launched a number of new projects in the year ended December 31, 2010, and we made capital expenditures of RMB347.5 million in this period. We estimate that our capital expenditures in the year ending December 31, 2011 will be approximately RMB470 million, which will be used for the acquisition of dredgers and dredging equipment. For the above reasons, it is unlikely that we will recommend the declaration of any annual dividend at any annual general meeting of our Company for considering and approving our audited accounts for the financial year ended December 31, 2010.

SUMMARY

RISK FACTORS

There are certain risks and considerations relating to an investment in the Shares, details of which are set out in the section headed “Risk Factors” in this prospectus. Set out below is a summary of these risks and uncertainties:

Risks relating to our industry and our business

- Our performance largely depends on public spending on transportation infrastructure.
- We derive a significant portion of our revenues from a small number of customers and substantially all of our contracts are subcontracts with our customers. The loss of one or more of these customers would negatively impact our business, operating results and financial condition.
- Most of our contracts with customers are short-term in nature and are not automatically renewed. If we fail to renew our existing contracts or secure new contracts on a continual basis, our operating results may be materially and adversely affected.
- The ending balance of the order backlog for our dredging services fluctuated significantly during the Track Record Period and may continue to fluctuate significantly in the future. Our order backlog increased substantially in 2010 and we may not be able to maintain a comparable level of order backlog in future years.
- The timing of new contracts as well as any delays in the commencement of projects may be outside of our control and may cause our actual financial results to vary.
- We commit to pay significant costs before receiving payment from our customers and if we are unable to collect our accounts receivable or suffer impairment losses, our liquidity, financial condition and results of operation may be materially and adversely affected.
- Some of our Controlling Shareholders have made certain commitments under the Pre-IPO Investment Agreements. Mr Liu and Wangji Limited may have to sell their Shares in our Company to obtain enough funds to pay the compensation as required pursuant to the Pre-IPO Warrant Agreements.
- We need to maintain permits or licenses for our operations and any delay in obtaining, suspension or loss of these permits or licenses could significantly hinder our business and reduce our expected turnover and profits.
- Our success depends on the continuing service of our senior management team and other key personnel.
- The PRC dredging industry is short of qualified personnel which may make it difficult for us to retain and recruit the employees necessary to further expand our business.
- We require substantial amounts of capital for our operation and expansion.

SUMMARY

- If we fail to accurately estimate our costs or fail to execute within our cost estimates on fixed-price contracts, our results of operations would be adversely affected.
- We have entered into letters of intent, a cooperation memorandum and a framework agreement with our customers, but such letters of intent, cooperation memorandum and framework agreement are not legally binding and may not result in an engagement under a definitive contract or earn any revenue.
- We conduct our business operation in the PRC through the PRC Operational Entity by way of the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under PRC laws.
- Our limited operating history may not serve as an adequate basis to judge our future prospects and result of operations.
- We may incur higher costs in the future to charter the dredgers necessary for our operations and may not be able to charter the necessary equipment on time.
- Increases in the price of fuel and other petroleum-based products could increase our costs which could adversely affect our business, operating results and financial condition.
- Many of our contracts provide for penalties in the event of late completion or substandard work.
- We cannot assure you that services performed by our subcontractors will always meet our standards or that we will be able to procure subcontracting services at a reasonable price.
- Environmental regulations could force us to incur significant capital and operational costs.
- Our business is subject to significant operating risks and hazards that could result in monetary damage or personal injury, which could result in losses or liabilities to us.
- Our operations are susceptible to adverse weather conditions in regions in which we operate.
- Our current insurance coverage may not be adequate, and we may not be able to obtain insurance at acceptable rates.
- Increases in labor costs and the occurrence of labor disputes or strikes could materially and adversely affect our profitability and results of operations.

Risks relating to our corporate structure

- If the PRC government finds that the Contractual Arrangements or the ownership structures or business operations of our Company or our PRC Operational Entity do not comply with any of the PRC laws and regulations, our business, financial condition or results of operations could be materially and adversely affected.

SUMMARY

- The Contractual Arrangements related to critical aspects of our operations with the PRC Operational Entity and its shareholders may not be as effective as direct ownership in providing operational control.
- Shareholders of the PRC Operational Entity may potentially have a conflict of interest with us, and they may breach their contracts with us.
- Our arrangements with the PRC Operational Entity may be considered by the PRC tax authorities as requiring transfer pricing adjustments.
- If we were required to obtain the prior approval of MOFCOM for or in connection with our corporate restructuring, our failure to do so could have a material adverse effect on our business, our operating results and the trading price of our Shares.
- PRC regulation of loans and direct investment by offshore holding companies to or in PRC entities may delay or prevent us from using the net proceeds we receive from the Global Offering to make loans or additional capital contributions to our PRC subsidiaries.
- We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund cash and financing requirements, and limitations on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

Risks relating to the PRC

- Changes in the PRC's economic, political and social conditions, as well as government policies, could have a material adverse effect on our business, financial condition, results of operations and prospects.
- Uncertainties with respect to the PRC legal system could have a material adverse effect on us.
- Any requirement to obtain prior approval from the CSRC could delay the Global Offering and a failure to obtain this approval, if required, could have a material and adverse effect on our business, operating results, reputation and the trading price of our Shares.
- Fluctuation in the exchange rates of Renminbi may have a material adverse effect on your investment.
- Governmental control over currency conversion may affect the value of your investment and limit our ability to utilize our cash effectively.
- Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options and restricted share units may subject such employees or us to fines and legal or administrative sanctions.
- Our global income and the dividends we may receive from our PRC subsidiaries may be subject to PRC tax under the PRC Enterprise Income Tax Law, which would have a material adverse effect on our results of operations.

SUMMARY

- You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on foreign laws against us and our Directors and senior management.

Risks relating to the Global Offering

- There has been no prior public market for our Shares and the liquidity and market price of the Shares may be volatile.
- The trading price of our Shares may be volatile, which could result in substantial losses to you.
- The sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and the Controlling Shareholders, could adversely affect the market price of our Shares.
- Holders of our Shares will incur immediate and substantial dilution and may experience further dilution if we issue additional Shares in the future.
- You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media, some of which may not be consistent with information contained in this prospectus.
- We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to the PRC and any provinces, cities or regions thereof or with respect to the economy and the property industry of the PRC and any provinces, cities or regions thereof contained in this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“AA Pre-IPO Note Purchase Agreement”	the note purchase agreement dated as of October 4, 2010 by and among Wangji Limited, Mr. Liu and Apex Ally (as amended and supplemented by a supplemental agreement dated March 1, 2011 and entered into by the same parties and other Group members), pursuant to which AA Pre-IPO Notes in the aggregate principal sum of HK\$153 million were issued by Wangji Limited to Apex Ally, a summary of which terms is set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”
“AA Pre-IPO Notes”	notes in the aggregate principal amount of HK\$153 million issued by Wangji Limited to Apex Ally pursuant to the AA Pre-IPO Note Purchase Agreement, which have a maturity date falling on October 4, 2012, a summary of which terms is set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”
“AA Pre-IPO Warrant Agreement”	the warrant agreement dated as of October 4, 2010 between Wangji Limited and Apex Ally, pursuant to which AA Pre-IPO Warrants with an aggregate exercise price of HK\$153 million were issued by Wangji Limited to Apex Ally, and a summary of which terms is set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”
“AA Pre-IPO Warrants”	warrants with an aggregate exercise price of HK\$153 million issued by Wangji Limited to Apex Ally pursuant to the AA Pre-IPO Warrant Agreement, providing the right to purchase up to an aggregate of Shares representing 7.65% of our Company’s Shares in issue on the Listing Date (without taking into account any Shares issued to the public or professional, institutional or other investors under the Global Offering), which may be exercised at any time during the period commencing on the date of the issuance of such warrants and expiring on the earlier of the Listing Date or the third anniversary of the date thereof, subject to the terms and conditions set out in the AA Pre-IPO Warrant Agreement, a summary of which terms is set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”

DEFINITIONS

“Apex Ally”	Apex Ally Investments Limited, a company incorporated in BVI and one of the Pre-IPO Investors, which is the holder of the AA Pre-IPO Notes in the aggregate principal amount of HK\$153 million and the AA Pre-IPO Warrants with an aggregate exercise price of HK\$153 million. Apex Ally is a wholly owned subsidiary of ICBC International Investment Management Limited
“Affiliate”	any person or entity that directly or indirectly controls, is controlled by or is under direct common control with another person or entity
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company approved by the written resolutions of our Shareholders on May 24, 2011, as amended or supplemented from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of our Company
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of Shares to be made upon capitalization of certain sum standing to the credit of the share premium account of our Company referred to in the paragraph headed “Resolutions in writing of all Shareholders passed on May 24, 2011” in Appendix VII to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

DEFINITIONS

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, CCASS Custodian Participant or a CCASS Investor Participant
“CCCC”	China Communications Construction Company Limited (中國交通建設股份有限公司), a leading transportation infrastructure group in China primarily engaged in the infrastructure construction, infrastructure design, dredging and port machinery manufacturing businesses, which is an Independent Third Party
“China” or “PRC”	People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to “China” and the “PRC” do not apply to Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Circular 75”	The “Circular regarding Foreign Exchange Control for Fundraising and Offshore-Domestic Investments by Domestic Residents through Special Purpose Vehicles” (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), promulgated by SAFE on October 21, 2005 and effective as of November 1, 2005
“Co-bookrunner”	Guotai Junan Securities (Hong Kong) Limited
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Xiangyu Dredging Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability on May 31, 2010
“connected person”	has the meaning ascribed to it under the Listing Rules
“Contractual Arrangements”	a series of contracts entered into by Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou (as the case may be), details of which are described in the section headed “Business — Contractual Arrangements”

DEFINITIONS

“Controlling Shareholders”	has the meaning ascribed thereto in the Listing Rules and, unless the context requires otherwise, collectively refers to Mr. Liu, Wangji Limited, Mr. Dong and Shen Wang Limited
“CSRC”	the China Securities Regulatory Commission* (中國證券監督管理委員會)
“CWVEC”	Changjiang Wuhan Waterway Engineering Company* (長江武漢航道工程局), a state-owned enterprise under the Changjiang Waterway Bureau, the Ministry of Transport of the PRC (中國交通運輸部長江航務管理局), which is an Independent Third Party and has been our customer since 2008
“Director(s)”	director(s) of our Company as of the date of this prospectus
“Dongying Committee”	Management Committee of the Economic Development Area of Dongying Harbor (東營港經濟開發區管理委員會), which is the control agency of the Dongying Harbor Economic Development Area (東營港經濟開發區) and an Independent Third Party
“Dornbirn Inc.”	Dornbirn Inc., a company incorporated in BVI and held some Pre-IPO Notes and Pre-IPO Warrants during the period between October 22, 2010 and February 25, 2011
“EIT”	the enterprise income tax of the PRC (中華人民共和國企業所得稅)
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an Independent Third Party
“Frost & Sullivan Report”	an industry report prepared by Frost & Sullivan dated May 31, 2011
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Green Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“Group”, “our Group”, “we”, “our” or “us”	our Company, its subsidiaries and the PRC Operational Entity (the financial results of which have been combined and accounted for as the subsidiary of our Company by virtue of the Contractual Arrangements) or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries (or before such associated companies became associated companies of our Company), the businesses operated by such subsidiaries, the PRC Operational Entity or their predecessors (as the case may be)

DEFINITIONS

“GDP”	gross domestic product
“Haixing”	Yancheng City Haixing Investment Co. Ltd.* (鹽城市海興投資有限公司), a company owned by the Yancheng City municipal government (鹽城市人民政府), which is the project owner of various contracts related to the development project in Yancheng City, Jiangsu Province (江蘇省鹽城市) and is an Independent Third Party
“HCQD”	Hubei Changjiang Qingyu Dredging Construction Co. Ltd.* (湖北長江清淤疏浚工程有限公司), a subsidiary of Changjiang Water Resources Commission (長江水利委員會), which was founded in 1999 and is an Independent Third Party
“HJ Pre-IPO Investment Agreements”	collectively, the HJ Pre-IPO Note Purchase Agreement, the HJ Pre-IPO Warrant Agreement and the related pledge agreements, summaries of which terms are set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”
“HJ Pre-IPO Note Purchase Agreement”	the note purchase agreement dated as of September 7, 2010 by and among Wangji Limited, Mr. Liu and Hong Jun (as amended and supplemented by a supplemental agreement dated March 3, 2011 and entered into by the same parties and other Group members), pursuant to which HJ Pre-IPO Notes in the aggregate principal sum of HK\$230 million were issued by Wangji Limited to Hong Jun, a summary of which terms is set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”
“HJ Pre-IPO Notes”	notes in the aggregate principal amount of HK\$230 million issued by Wangji Limited to Hong Jun pursuant to the HJ Pre-IPO Note Purchase Agreement, which have a maturity date falling on September 7, 2012, a summary of which terms is set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”
“HJ Pre-IPO Warrant Agreement”	the warrant agreement dated as of September 7, 2010 between Wangji Limited and Hong Jun, pursuant to which HJ Pre-IPO Warrants in the aggregate exercise price of HK\$230 million were issued by Wangji Limited to Hong Jun, a summary of which terms is set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”

DEFINITIONS

“HJ Pre-IPO Warrants”	warrants with an aggregate exercise price of HK\$230 million issued by Wangji Limited to Hong Jun pursuant to the HJ Pre-IPO Warrant Agreement providing the right to purchase up to an aggregate of Shares representing 11.5% of our Company’s Shares in issue on the Listing Date (without taking into account any Shares issued to the public or professional, institutional or other investors under the Global Offering), which may be exercised at any time during the period commencing on the date of the issuance of such warrants and expiring on the earlier of the Listing Date or the third anniversary of the date thereof, subject to the terms and conditions set out in the HJ Pre-IPO Warrant Agreement, a summary of which terms is set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK eIPO White Form”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form (www.hkeipo.hk)
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company as specified on the designated website of HK eIPO White Form (www.hkeipo.hk)
“HKFRSs”	Hong Kong Financial Reporting Standards issued by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Jun”	Hong Jun Investment Limited, a company incorporated in BVI and one of the Pre-IPO Investors, which is the holder of the HJ Pre-IPO Notes in the aggregate principal amount of HK\$230 million and the HJ Pre-IPO Warrants in the aggregate exercise price of HK\$230 million. Hong Jun is a wholly owned subsidiary of CCB International Asset Management Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Hong Kong Offer Shares”	the 20,000,000 Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares by the public in Hong Kong at the Offer Price, subject to and in accordance with the terms and conditions set out in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering whose names are set out in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the conditional Hong Kong underwriting agreement dated June 7, 2011 relating to the Hong Kong Public Offering entered into, among others, by our Company, the Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters, details of which are set forth in the section headed “Underwriting — Underwriting Arrangements and Expenses” in this prospectus
“Independent Third Party(ies)”	party or parties not connected with us, any Directors, chief executives, Controlling Shareholders or substantial shareholders of our Company or subsidiaries or any of their respective associates
“International Offering”	the conditional offering of the International Offer Shares outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act, including to professional investors in Hong Kong, as further set forth in the section entitled “Structure of the Global Offering” in this prospectus
“International Offer Shares”	the 180,000,000 Shares being initially offered by our Company for subscription under the International Offering subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus, together, where relevant, with any additional Sale Shares to be offered for sale pursuant to the exercise of the Over-allotment Option
“International Underwriters”	the underwriters expected to enter into the International Underwriting Agreement to underwrite the International Offer Shares

DEFINITIONS

“International Underwriting Agreement”	the conditional international underwriting agreement relating to the International Offering to be entered into, among others, by our Company, the Controlling Shareholders, the International Underwriters, the Sole Sponsor and the Sole Global Coordinator dated on or about June 13, 2011
“Issuing Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the issue of our new Shares, details of which are set forth in the paragraphs headed “Resolutions in writing of all Shareholders passed on May 24, 2011” in Appendix VII to this prospectus
“Joint Lead Managers”	CCB International Capital Limited and Guotai Junan Securities (Hong Kong) Limited
“Latest Practicable Date”	June 2, 2011, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about June 20, 2011, on which dealings in the Shares first commence on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market
“Ministry of Commerce” or “MOFCOM”	The Ministry of Commerce of the PRC* (中華人民共和國商務部)
“Ministry of Transport” or “MOT”	The Ministry of Transport of the PRC* (中華人民共和國交通運輸部)
“Mr. Dong”	Mr. Dong Liyong (董立勇), one of our Controlling Shareholders, a non-executive Director and the Chairman of our Company

DEFINITIONS

“Mr. Liu”	Mr. Liu Kaijin (劉開進), one of our Controlling Shareholders, executive Director and Chief Executive Officer, and the spouse of Ms. Zhou
“Ms. Zhou”	Ms. Zhou Shuhua (周淑華), an executive Director and the spouse of Mr. Liu
“New M&A Rule”	the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定), jointly adopted by the Ministry of Commerce, SASAC, the State Administration of Taxation, the State Administration for Industry and Commerce, the CSRC and SAFE, on August 8, 2006, and effective as of September 8, 2006
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) of not more than HK\$4.07 and expected to be not less than HK\$3.19, such price to be agreed upon by us (for ourselves and on behalf of the Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters, and in consultation with the Sole Sponsor) on or before the Price Determination Date
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares
“Over-allotment Option”	the option to be granted by the Selling Shareholder to the Sole Global Coordinator (on behalf of the International Underwriters) exercisable under the International Underwriting Agreement, pursuant to which the Selling Shareholder may be required to sell up to an aggregate of 30,000,000 existing Shares (representing 15% of the Shares initially being offered under the Global Offering) to cover over-allocations in the International Offering, details of which are described in the section headed “Structure of the Global Offering — Over-allotment and stabilization” in this prospectus
“PBOC”	the People’s Bank of China* (中國人民銀行), the central bank of the PRC
“Pledges”	the pledges or collaterals granted to Apex Ally and Hong Jun, respectively, details of which are set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”
“Power Wealth BVI”	Power Wealth Group (BVI) Limited, a company incorporated under the laws of BVI on May 17, 2010 with limited liability and a direct wholly owned subsidiary of our Company

DEFINITIONS

“Power Wealth HK”	Power Wealth Engineering Limited, a company incorporated under the laws of Hong Kong on July 3, 2002 with limited liability and an indirect wholly owned subsidiary of our Company
“PRC Legal Advisers”	Zhong Lun Law Firm, the legal advisers to our Company as to the laws of the PRC
“PRC Operational Entity” or “Jiangsu Xingyu”	Jiangsu Xingyu Port Construction Company Limited* (江蘇興宇港建有限公司), a limited company established under the laws of the PRC on July 13, 2007, the financial results of which have been combined and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements
“Pre-IPO Investments”	the transactions contemplated by the Pre-IPO Investment Agreements
“Pre-IPO Investment Agreements”	collectively, the HJ Pre-IPO Note Purchase Agreement, the AA Pre-IPO Note Purchase Agreement, the HJ Pre-IPO Warrant Agreement, the AA Pre-IPO Warrant Agreement and related pledge agreements, summaries of which are set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”
“Pre-IPO Investors”	Apex Ally and Hong Jun
“Pre-IPO Note Purchase Agreements”	collectively, the AA Pre-IPO Note Purchase Agreement and the HJ Pre-IPO Note Purchase Agreement and “Pre-IPO Note Purchase Agreement” means any one of them
“Pre-IPO Notes”	the AA Pre-IPO Notes and the HJ Pre-IPO Notes
“Pre-IPO Warrants”	the AA Pre-IPO Warrants and HJ Pre-IPO Warrants
“Pre-IPO Warrant Agreements”	collectively, the AA Pre-IPO Warrant Agreement and the HJ Pre-IPO Warrant Agreement, and “Pre-IPO Warrant Agreement” in the singular means either one of such agreements
“Price Determination Date”	the date, expected to be on or about June 13, 2011 and in any event no later than June 15, 2011, on which the Offer Price is to be fixed by agreement between us (for ourselves and on behalf of the Selling Shareholder) and the Sole Global Coordinator (on behalf of the Underwriters, and in consultation with the Sole Sponsor)
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	the lawful currency of the PRC

DEFINITIONS

“Reorganization”	the corporate reorganization of our Group in the preparation for the Listing, particulars of which are set forth under the paragraph headed “Group reorganization” of Appendix VII to this prospectus
“Repurchase Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the repurchase of our Shares, further information about which is set forth in the paragraphs headed “Resolutions in writing of all Shareholders passed on May 24, 2011” in Appendix VII to this prospectus
“SAFE”	State Administration of Foreign Exchange of the PRC* (中華人民共和國國家外匯管理局)
“Sale Shares”	up to 30,000,000 existing Shares being offered for sale by the Selling Shareholder at the final Offer Price pursuant to the Over-allotment Option
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC* (國務院國有資產監督管理委員會)
“Selling Shareholder” or “Shen Wang Limited”	a company incorporated under the laws of BVI on June 3, 2010 with limited liability and wholly owned by Mr. Dong, a Controlling Shareholder and the selling shareholder of the Sale Shares
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with nominal value of HK\$0.10 each in the capital of our Company
“Share Option Scheme”	the share option scheme conditionally adopted by our Company by the passing of a Shareholders’ resolution on May 24, 2011, the principal terms of which are set forth under the paragraph headed “Share Option Scheme” in Appendix VII to this prospectus
“Shareholder(s)”	holder(s) of our Share(s)
“SHDC”	Shanghai Hehai Dredging Co., Ltd.* (上海河海航務工程有限公司), a privately owned dredging company, which is an Independent Third Party and has been our customer since 2004

DEFINITIONS

“Sole Global Coordinator” or “Lead Bookrunner”	CCB International Capital Limited
“Sole Sponsor”	Morgan Stanley Asia Limited
“Stabilizing Manager”	CCB International Capital Limited
“State Council”	the State Council of the PRC* (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or about the Price Determination Date between the Stabilizing Manager (or its Affiliates acting on its behalf) and the Selling Shareholder, pursuant to which the Selling Shareholder will agree to lend up to 30,000,000 existing Shares to the Stabilizing Manager on terms set forth therein, further details of which are set out in the section headed “Structure of the Global Offering — Over-allotment and Stabilization” in this prospectus.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“subsidiary(ies)”	has the meaning ascribed to it in section 2 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers, as promulgated by the SFC and as amended from time to time
“TDC Port”	CCCC-TDC Port Construction Engineering Co., Ltd.* (中交天航港灣建設工程有限公司), a subsidiary of CCCC (中國交通建設股份有限公司), which is an Independent Third Party and has been our customer since 2007
“TDC Yantai”	CCCC-TDC Yantai Environmental Protection Dredging Co., Ltd.* (中交煙台環保疏浚有限公司), a subsidiary of CCCC (中國交通建設股份有限公司), which is an Independent Third Party and has been our customer since 2007
“Track Record Period”	the three financial years ended December 31, 2010
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. persons”	U.S. persons as defined under Regulation S
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

DEFINITIONS

“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“Wangji Limited”	a company incorporated under the laws of BVI on March 16, 2010 with limited liability, which is a Controlling Shareholder and wholly owned by Mr. Liu
“Xiangyu PRC”	Jiangsu Xiangyu Port Constructing Project Administration Co. Ltd.* (江蘇翔宇港建工程管理有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on June 11, 2010, which is an indirect wholly owned subsidiary of our Company
“Yandu Management Company”	Yancheng City Yandu District State-owned Asset Investment Operations Company Limited (鹽城市鹽都區國有資產投資經營有限公司), a state-owned enterprise which was authorized by the Yandu District Local Government in May 2011 to implement dredging, aquatic ecological restoration and treatment of polluted water for the rivers in Yandu District using a build-and-transfer model

The provision of English translation of company or other entity names in Chinese or other language which are marked with “” is for identification purpose only.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with our Company and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

“barge”	a flat-bottomed boat, built mainly for river and canal transport of heavy goods which may be self-propelled or need to be towed or pushed by tugboats
“berth”	a place in which a vessel is moored or secured; or a place where a ship loads or unloads cargo
“capital dredging”	the initial dredging work during port construction to establish appropriate water dimensions for navigation channels and for other infrastructure projects such as the construction of canals, breakwaters or jetties or for trench digging for pipes, cables or tunnels
“chartering”	the hiring of dredgers for one or more years
“container”	a cargo transportation storage unit designed for ease of mechanical handling and recurrent use over a long period or a large sized receptacle with considerable strength and rigidity and designated specification for recurrent cargo shipments, as applicable
“cutter suction dredger”	a type of hydraulic dredger which acts like a large vacuum cleaner and uses a cutterhead at the suction inlet to loosen the material to be dredged and is capable of dredging some types of rock
“dredger”	a ship or boat equipped with a dredge, which is a device for scraping or sucking material from the seabed, used for dredging; dredgers can be largely grouped into mechanical or hydraulic dredgers
“dredger working efficiency rate”	the ratio of actual dredging output per hour for a dredging vessel to designed dredging capacity per hour calculated in accordance with the standards set forth in the Technical Code of Dredging Engineering (《疏浚工程施工技術規範》) issued by the Ministry of Transport of the PRC
“dry dock”	a narrow basin or vessel that can be flooded to allow a load to be floated in, then drained to allow that load to come to rest on a dry platform; dry docks are used for the repair and maintenance of vessels

GLOSSARY OF TECHNICAL TERMS

“environmental protection dredging”	the removal of contaminated sediment, pollutants or other material from navigation channels to improve water quality, restore aquatic ecosystems or to promote other similar environmental interests
“grab dredger”	a type of mechanical dredger which uses one or more buckets of various designs to pick up the material to be dredged. The dredged material is typically placed in a barge, for transport to a designated relocation site
“maintenance dredging”	the regular removal of sediment or other material to maintain navigation channels
“reclamation dredging”	pumping or transferring sand, gravel or other dredged material along or near a sea shore or river bank in order to increase available land
“terminal”	an assigned area in which containers and cargo are prepared for loading onto a vessel, train, truck or plane or are stacked immediately after unloading from a vessel, train, truck or plane

FORWARD LOOKING STATEMENTS

This prospectus contains forward-looking statements that state our Group's intention, belief, expectation or prediction for the future that are, by their nature, subject to significant risks and uncertainties.

These forward-looking statements include, without limitation, statements relating to:

- public spending on transportation infrastructure in China;
- the industry regulatory environment as well as the industry outlook in general;
- the amount, nature of and potential for future development of our Group's business;
- our Group's business strategies;
- our dividend policy;
- our Group's capital expenditure plans;
- our Group's operations and business prospects; and
- our Group's future plans.

The words "aim", "believe", "intend", "anticipate", "plan", "potential", "predict", "project", "propose", "will", "would", "may", "should", "expect", "seek" and similar expressions, as they relate to our Group, are intended to identify a number of these forward-looking statements. All statements (other than statements of historical facts included in this prospectus), including statements regarding our Group's strategy, plans and objectives of management for future operations, are forward-looking statements. These forward-looking statements merely reflect our Group's current view with respect to future events, but they are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risks factors as disclosed under "Risk Factors" and elsewhere in this prospectus. One or more of these risks or uncertainties may materialize, or the underlying assumptions may prove to be incorrect. The Directors confirm that these forward-looking statements are made after due and careful consideration. Although our Directors believe that our Company's current views as reflected in those forward-looking statements based on currently available information are reasonable, our Company can give no assurance that those views will prove to be correct, and the investors are cautioned not to place undue reliance on such statements.

Subject to the requirements of the Listing Rules or the applicable laws, our Company undertakes no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way our Company expects. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in our Shares. You should pay particular attention to the fact that we conduct our operations in the PRC, the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, see “Regulatory Overview” in this prospectus.

RISKS RELATING TO OUR INDUSTRY AND OUR BUSINESS

Our performance largely depends on public spending on transportation infrastructure.

Our business largely depends on the PRC government’s spending on transportation infrastructure, principally the construction and improvement of ports and waterways. The project owners of the projects we work on are typically PRC state-owned enterprises. We are therefore exposed to changes in public works budgets. The future growth of the dredging industry in China depends largely upon the continued availability of major port and waterway infrastructure projects. The nature, extent and timing of these projects will, however, be determined by a variety of factors, including the PRC government’s spending on port and waterway infrastructure in China and general economic conditions. The PRC government’s spending on port and waterway infrastructure has historically been, and may continue to be, affected by China’s macro-economic trends, which are subject to fluctuation. In addition, measures implemented by the PRC government aimed at preventing the economy from overheating may have an impact on public spending on transportation infrastructure projects. Should there be a significant reduction in public spending on port and waterway infrastructure projects in China, our operations and profits could be materially and adversely affected.

We derive a significant portion of our revenues from a small number of customers and substantially all of our contracts are subcontracts with our customers. The loss of one or more of these customers would negatively impact our business, operating results and financial condition.

We derive a significant portion of our revenue from a limited number of customers. For the years ended December 31, 2008, 2009 and 2010, our largest five customers accounted for 97.3%, 96.9%, and 99.3%, respectively, of our total revenues. During the same periods, our largest customer accounted for 49.7%, 54.1% and 51.7%, respectively, of our total revenues. If we lose one of our major customers or if any of our major customers significantly reduces its volume of business with us, our net revenues and profitability would be substantially reduced. Although we have entered into contracts with and will continue to seek business from other customers, we expect revenues from our largest five customers to continue to account for a significant portion of our revenues. Please refer to “Business — Customers — Largest Customers” for further details regarding our largest customers.

In addition, most of our major customers are also our competitors and substantially all of our contracts were subcontracted from our major customers during the Track Record Period. Due in part to their capacity constraints, our customers outsource to subcontractors, including us, to provide some of their dredging services. We believe that we have developed close relationships with our customers that our customers cannot easily replace us with other subcontractors. For example, we have successfully

RISK FACTORS

cultivated certain key customer relationships to become important strategic partnerships for securing new business, including strategic partnerships with our two largest customers to bid for and provide dredging services to their respective customers. See “Business — Customers” for a description of our major customers and strategic partnerships. However, we cannot assure you that our customers will continue to have capacity constraints and continue engaging subcontractors or that they will not replace us with other subcontractors. The occurrence of any of the foregoing could materially and adversely affect our business prospects, financial condition and operating results.

Most of our contracts with customers are short-term in nature and are not automatically renewed. If we fail to renew our existing contracts or secure new contracts on a continual basis, our operating results may be materially and adversely affected.

Each individual contract that customers of ours obtain from project owners and subcontract to us usually covers only a portion of the dredging work required for a particular coastal development project and is short-term in nature. As a result, we must periodically seek to renew our contracts or enter into new contracts when our current contracts are completed. Although we have maintained and will strive to maintain good relationships with our customers and will use our best efforts to cause our customers to renew existing contracts or secure new contracts with us, we cannot assure you that we will always be able to renew our existing contracts or secure new contracts with our customers. If we are unable to renew our existing contracts or secure new contracts on a continual basis, we may experience slowed growth or no growth at all and our business and operating results may be materially and adversely affected.

The ending balance of the order backlog for our dredging services fluctuated significantly during the Track Record Period and may continue to fluctuate significantly in the future. Our order backlog increased substantially in 2010 and we may not be able to maintain a comparable level of order backlog in future years.

The ending balance of the order backlog for our dredging services fluctuated significantly during the Track Record Period. The ending balance of our order backlog was RMB138.0 million, RMB110.2 million and RMB1,144.3 million as of December 31, 2008, 2009 and 2010, respectively. See “Business — Historical Order Backlog.” Our order backlog ending balance decreased from December 31, 2008 to December 31, 2009 despite a higher aggregate contract value of new contracts signed in 2009 than in 2008 because we completed and received payments for a substantially greater value of work in 2009 than in 2008. Our ending balance increased by 938.4% from December 31, 2009 to December 31, 2010 because we entered into contracts with a substantially greater aggregate contract value in 2010 than in 2009. In addition, all of the major contracts we entered into in 2010 had terms that extended beyond the end of that year. The ending balance of our order backlog fluctuated significantly during the Track Record Period, and it may continue to fluctuate significantly in the future due to factors such as our ability to enter into new contracts, the contract value and term of the contracts we enter into and the value of work we are able to complete and payments we receive in any given year. Our order backlog increased substantially in 2010 and we may not be able to maintain a comparable level of order backlog in future years.

RISK FACTORS

The timing of new contracts as well as any delays in the commencement of projects may be outside of our control and may cause our actual financial results to vary.

Even when we secure new contracts, we face risks that can affect whether or when work will begin, as timing of new projects and contracts is typically determined by project owners. The risk of such delays can present difficulties in matching workforce size and equipment location with contract needs. Depending on the terms of the contracts, if the award of an expected contract or the release of the related work is delayed or not received, we could incur substantial costs without receipt of any corresponding revenues. As of the Latest Practicable Date, we have begun work under all of our binding project contracts. Going forward, however, delays in any of the projects in our pipeline could have a material and adverse effect on our liquidity, financial condition and results of operations.

We commit to pay significant costs before receiving payment from our customers and if we are unable to collect our accounts receivable or suffer impairment losses, our liquidity, financial condition and results of operation may be materially and adversely affected.

Most of our contracts provide for monthly progress payments typically in an amount equal to 70% to 80% of the value of work completed in the previous month. Under these contracts, the project or site manager of our customer issues a progress certificate certifying the work done in the preceding month, and our customer then makes a progress payment to us based on the progress certificate. The remaining balance, which is typically 20% to 30% of the value of work completed, is required to be paid within a specified period after the project is completed and accepted by the project owner. In addition, under certain of our contracts, a portion of the contract value, for example 5%, is withheld by the customer until the expiration of a warranty period.

However, we are often required to commit to pay costs as we undertake work for a project and prior to receiving payment from our customers. For example, we may charter dredgers, purchase materials from third-party suppliers or engage subcontractors to perform portions of our services, and we are committed to pay or may pay our suppliers and subcontractors before our customer pays us for the related services. As a result, we may experience shortfalls in working capital and be required to borrow or otherwise raise capital, which would result in increased finance costs and debt obligations. In addition, our customers may delay payments of monthly or retention amounts as a result of market conditions, industry practices or other reasons and we are subject to the risk that our customers may not pay us at all, for example due to bankruptcy or dissolution.

As of December 31, 2008, 2009 and 2010, our trade and other receivables amounted to RMB65.7 million, RMB230.2 million and RMB280.4 million, respectively. These increases were primarily caused by increases in revenue from our dredging business each year. Our trade receivables turnover days increased from 87 days in 2008 to 146 days in 2009 and further to 210 days in 2010. The increase in our trade receivables turnover days in 2009 was due to a combination of factors, including the expansion of our business, especially near the end of the year, the mature stage of many of our projects at year-end and late payments by our customers. In 2010, the increase was due to the continued expansion of our business, including new contracts that had duration terms which extended beyond year-end as well as late payments by our customers. We review the aging of trade receivables on a regular basis. As of the Latest Practicable Date, our management considers that no impairment loss needs to be recognized for our trade receivables which were past due during the Track Record Period in view of the

RISK FACTORS

financial background of these customers and their historical track record of payments. Please refer to “Financial Information — Analysis of Selected Statement of Financial Position Items — Trade and Other Receivables Analysis” for details.

However, there can be no assurance that we will be able to improve our collection of trade receivables. If our average trade receivables turnover days increase, our liquidity and financial condition could be materially and adversely affected. We do not hold any collateral against our trade receivables. Moreover, there can be no assurance that our customers will make payments to us on a timely basis or that we will be able to efficiently manage the level of impairment losses in the future. Any significant impairment losses in future periods would have a material and adverse effect on our financial condition and results of operations.

Some of our Controlling Shareholders have made certain commitments under the Pre-IPO Investment Agreements. Mr. Liu and Wangji Limited may have to sell their Shares in our Company to obtain enough funds to pay the compensation as required pursuant to the Pre-IPO Warrant Agreements.

Pursuant to the HJ Pre-IPO Warrant Agreement and AA Pre-IPO Warrant Agreement, Mr. Liu and Wangji Limited will be required to make certain cash contributions to the Pre-IPO Investors if our Group does not meet certain net income and market value thresholds. See “History, Reorganization and Corporate Structure — Pre-IPO Investments.” For illustration purpose, for every RMB1 million shortfall in our Group’s profit and for every HK\$100 million shortfall in our Company’s market value (assuming the Global Offering is consummated on or before the first anniversary of the issuance of the Pre-IPO Warrants), Wangji Limited would be obligated to pay cash contributions of approximately HK\$1.3 million and HK\$14.7 million, respectively. Mr. Liu and Wangji Limited’s total potential liability in these respects under the Pre-IPO Warrant Agreements is HK\$766 million. Mr. Liu and Wangji Limited may be required to sell the Shares in our Company in order to obtain enough funds to pay the compensation as required pursuant to the Pre-IPO Warrant Agreements. That could have a negative impact on the share price of the Shares. Furthermore, it is possible that such disposal could result in change of control of our Group. A conflict of interest between our Group and the PRC Operational Entity may arise if Mr. Liu, through Wangji Limited, loses his equity interest in our Group, but retains ownership of the PRC Operational Entity. Any such change in control or conflict of interest may materially and adversely affect our financial condition, results of operation or the price of our Shares.

We need to maintain permits or licenses for our operations and any delay in obtaining, suspension or loss of these permits or licenses could significantly hinder our business and reduce our expected turnover and profits.

We are required to maintain operating permits and licenses, such as examination certificates for vessels and licenses in relation to crew member qualification, to conduct our business, and we must comply with the restrictions and conditions imposed by various levels of government to maintain our permits and licenses. For example, we may be required to maintain a sufficient number of qualified personnel, maintain a sufficient project track record and comply with safety regulations and environmental protection regulations. See “Regulatory Overview” for more information on the PRC license requirements applicable to us. If we fail to comply with any of these regulations, our licenses

RISK FACTORS

could be temporarily suspended or even revoked, or the renewal of our licenses upon expiry of their original terms may be delayed or refused, which would directly impact our capability to undertake relevant work and would reduce our revenue and profit.

Our success depends on the continuing service of our senior management team and other key personnel.

Our future success depends heavily upon the continuing service of our executive Directors and members of our senior management team, including, in particular, our founder and Chief Executive Officer, Mr. Liu, who has approximately 20 years of industry experience. Our senior project managers and engineers have an average of approximately 20 years of experience working in the PRC dredging industry. We rely on their expertise in developing business strategies, managing business operations, developing sales and marketing strategies, and strengthening our relationships with our key customers and governmental agencies. If one or more of our senior executives or key employees are unable or unwilling to continue in their present positions, we might not be able to replace them easily or in a timely manner, and we may incur additional expenses to recruit, train and retain personnel. In such case, our business could be severely disrupted and our financial condition and results of operations could be materially and adversely affected.

The PRC dredging industry is short of qualified personnel which may make it difficult for us to retain and recruit the employees necessary to further expand our business.

In China, the dredging market is short of experienced dredging technicians and dredger operators. Our success depends on our ability to attract and retain qualified employees. As we intend to continue to expand our dredging capacity, we expect that we will need to recruit more qualified employees. The growth of the dredging industry in China has created an increasing demand for qualified employees in each segment of the dredging industry. While we have implemented certain measures to retain employees and promote effective recruitment and retention of our employees, we cannot assure you that these measures will be effective. If we are unable to recruit or retain a sufficient number of qualified employees, our business and prospects may be materially and adversely affected.

We require substantial amounts of capital for our operation and expansion.

The dredging industry is highly capital intensive. Dredging companies generally have substantial ongoing funding requirements to maintain or increase dredging capacity and to purchase or charter dredgers. In addition, the dredging industry also requires significant capital commitments to fund the cost of fuel and to repair and maintain dredgers.

We made capital expenditures of RMB27.0 million, RMB0.4 million and RMB347.5 million in the years ended December 31, 2008, 2009 and 2010, respectively. During the Track Record Period, our capital expenditures were used primarily to purchase equipment such as dredgers and ancillary equipment, which were funded substantially with cash flow generated from operations and bank borrowings. As at the Latest Practicable Date, we had no unutilized bank facilities. We estimate that our capital expenditures in the year ending December 31, 2011 will be approximately RMB470 million, and are planned to be used primarily for the acquisition of dredgers and dredging equipment. We plan to fund our capital expenditures for the year ending December 31, 2011 substantially with cash on hand, our cash flow from operations and the net proceeds from the Global Offering. Accordingly, our ability to finance our capital expenditures could be adversely affected by a reduction in our cash flow from

RISK FACTORS

operations. Our cash flow from operations is significantly affected by the average per unit price of dredged material in our contracts, our working capital and our operating costs. If we experience changed business conditions or other developments, we may need additional cash resources in the future. It is possible that when we need additional cash resources, financing will only be available to us in amounts and on terms that would not be acceptable to us or may not be available at all. Therefore, any significant reductions in our cash flow from operations and/or failure to obtain additional funding would hinder our ability to make continued investments in our capacity enhancement program, which could materially and adversely affect our business and operating results.

If we fail to accurately estimate our costs or fail to execute within our cost estimates on fixed-price contracts, our results of operations would be adversely affected.

Most of our revenue is from fixed-price contracts. Under these contracts, we perform our services and execute our projects at a fixed price and, as a result, we may be unable to recover any cost overruns. Fixed-price contracts carry inherent risks, including risks of losses from underestimating costs, operational difficulties and other changes that may occur during the contract period. If our cost estimates for a contract are inaccurate, or if we do not execute the contract within our cost estimates, our gross profit may be reduced or the project may not be as profitable as we expected. In addition, the revenue, operating cost and gross profit on such contracts can vary, sometimes substantially, from the original projections due to changes in a variety of factors, such as:

- failure to properly estimate the cost of engineering, material, equipment, labor or subcontracting;
- unanticipated technical problems with the dredgers or other equipment that we own and/or use, which may require us to incur costs we cannot recoup;
- our suppliers' or subcontractors' failure to perform;
- failure to properly estimate the repair or maintenance requirements of the dredgers or other equipment that we own and/or use;
- unusual or unexpected geological formations, which may require us to incur additional costs; and
- exacerbation of any one or more of these factors as projects grow in size and complexity.

These risks increase if the duration of the project is long-term because there is an increased probability that the circumstances upon which we based our original bid will change in a manner that increases our costs.

RISK FACTORS

We have entered into letters of intent, a cooperation memorandum and a framework agreement with our customers, but such letters of intent, cooperation memorandum and framework agreement are not legally binding and may not result in an engagement under a definitive contract or earn any revenue.

In July 2010 and March 2011 we entered into a non-binding letter of intent, and a non-binding cooperation memorandum, respectively, under which we agreed to provide environmental protection dredging services in Wuhan City, Hubei Province subject to the satisfaction of certain conditions, not all of which are within our control. In August 2010, we entered into a non-binding letter of intent with Dongying Committee under which Dongying Committee agreed to engage us in contract work to provide capital and reclamation dredging services for phase one of the port expansion project in Dongying Harbor, Shandong Province. In August 2010, we entered into a non-binding five-year framework agreement with Haixing under which Haixing agreed to engage us to provide capital and reclamation dredging services for the development project in Yancheng City, Jiangsu Province. These projects are transportation development projects in China and are expected to support the growth of our business. However, since such letters of intent, cooperation memorandum and framework agreement are not legally binding under PRC law, our engagement on these projects is subject to the signing of a definitive contract with our customers and the successful commencement of such projects. As a result, they may not bring actual revenue-generating work to us, which would have a material adverse effect on our business, operating results and financial condition.

We conduct our business operation in the PRC through the PRC Operational Entity by way of the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under PRC laws.

All the agreements which constitute the Contractual Arrangements provide for dispute resolution by way of arbitration by the arbitral body of the China International Economic and Trade Arbitration Commission in accordance with its then prevailing arbitration rules. These agreements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of the PRC Operational Entity, injunctive relief and/or winding up of the PRC Operational Entity. In addition, these agreements also contain provisions to the effect that courts of competent jurisdictions shall be empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal.

However, under PRC laws, some of the above contractual terms may not be enforceable. For instance, under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order for the purpose of protecting assets of or equity-interest in the PRC Operational Entity in case of disputes. In addition, our major assets and operations are situated and carried out in the PRC. Therefore, such remedies may not be available to us, notwithstanding the contractual provisions contained in the agreements. PRC laws do allow the arbitral body to give an award of transfer of assets of or equity interest in the PRC Operational Entity in favor of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, PRC courts may not support such an award of the arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts or judicial authorities in the PRC generally would not award injunctive relief or winding-up of the PRC Operational Entity as preliminary remedies for the purpose of protecting assets or shares in favor of any aggrieved party. Even though the Contractual Arrangements provide that overseas courts are given jurisdiction to grant and/or enforce

RISK FACTORS

interim remedies and support arbitral judgments and awards, such interim remedies (even if so granted by overseas courts in favor of an aggrieved party) may not be recognized or enforced by PRC courts. Therefore, in the event of breach of any agreements constituting the Contractual Arrangements by Mr. Liu, Ms. Zhou and/or the PRC Operational Entity, and if we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over the PRC Operational Entity, and our ability to conduct our business may be negatively affected.

For further details of risks associated with our corporate structure see “Risks Relating to Our Corporate Structure”.

Our limited operating history may not serve as an adequate basis to judge our future prospects and results of operations.

We were founded in July 2002 to engage initially in dredging project management services on a relatively small scale. We began providing dredging services in the PRC in July 2007 when we were engaged by TDC Port and other customers and commenced capital and reclamation dredging services for the port expansion project in the Caofeidian Industrial Area. Our limited operating history provides a limited basis for you to evaluate the viability and sustainability of our business. Our revenue has grown rapidly since our inception. Our revenue increased from RMB133.3 million in 2008 to RMB346.5 million in 2009 and to RMB374.9 million in 2010.

To sustain our growth, we must, among other things, further expand our dredging capacity and customer base. The growth of our business will put substantial demands on our managerial, operational, financial and other resources as well as increase our working capital needs. Our ability to sustain the growth of our business is also subject to risks and uncertainties that are beyond our control. We may not be able to sustain our historical revenue growth rate for a variety of possible reasons, including:

- limitations on expansion in our current markets and failure to secure new contracts;
- limited access to necessary working capital and investment capital;
- limited availability of dredgers and related equipment to purchase or charter;
- inability to hire and retain essential personnel;
- inability to identify acquisition candidates and integrate them into our business; and
- a significant reduction in public spending on port and waterway infrastructure in China.

A decline in our revenue growth could have a material adverse effect on our business, operating results and financial condition if we are unable to reduce the growth of our operating expenses at the same rate.

We may incur higher costs in the future to charter the dredgers necessary for our operations and may not be able to charter the necessary equipment on time.

A dredging company’s operations depend heavily on its dredging equipment. From time to time, we may enter into contracts the requirements of which exceed our available dredging capacity. When additional capacity is required to fulfill obligations under our contracts, we may charter the requisite

RISK FACTORS

additional dredgers. Although we have not experienced and do not foresee any difficulty in securing suitable dredgers for our operations, we cannot assure you that we will be able to charter dredgers for our operations in the future, due, for example, to a lack of available funding or a shortage of dredgers in the market. In addition, our dredgers may be subject to seizure by claimants as security for maritime torts committed by the vessel operators or us or by dredger owners for the failure by us to fulfill our obligations under the charter agreement. Any of the foregoing may cause delays or early termination of our projects, which could have a material adverse effect on our business, operating results and financial condition.

Increases in the price of fuel and other petroleum-based products could increase our costs which could adversely affect our business, operating results and financial condition.

We use fuel and other petroleum-based products to operate dredgers and other equipment. Any decrease in the supply of those products, increase in demand for them or other factors could cause an increase in their prices. Any future increase in the price of fuel and other petroleum-based products used in our business, particularly if a bid has been submitted for a contract or a contract has been signed that provides for a fixed price of such products and the costs of such products have been estimated at amounts less than the actual costs thereof, could result in a lower profit, or a loss, on one or more contracts. The price of crude oil experienced a high level of fluctuation during the global financial crisis in 2008. The price of crude oil continued to fluctuate in 2009 and 2010, and the lowest and highest prices of Tapis Crude differed by 140.1% during this period.

We have begun to limit our exposure to material price volatility by entering a contract with Haixing for the Yancheng City project which contains an escalation clause requiring Haixing to bear increases in material costs in excess of 3%. However, we cannot assure you that our other customers will agree to such escalation clauses. Any failure to incorporate these clauses into our dredging and dredging-related construction contracts would subject us to fluctuations in the prices of raw materials, and if such prices were to increase significantly, our operating results could be materially adversely affected.

Many of our contracts provide for penalties in the event of late completion or substandard work.

We guarantee in many of our fixed-price contracts that we will complete a project by a scheduled date. If we subsequently fail to complete the project as scheduled without a justifiable reason or fail to meet our customer's requirements, we may be held responsible for the additional costs resulting from the delay or additional required work, generally in the form of contractually agreed-upon damages. Moreover, in the case of defective work for which we are at fault, our customers under certain of our contracts may be entitled to terminate the contract, withhold retention money of about 5% of the contract value, and claim damages against us. To the extent that these events occur, the total costs of a particular project could exceed our original estimates and we could experience reduced gross profits or, in some cases, an operating loss for that project.

We cannot assure you that services performed by our subcontractors will always meet our standards or that we will be able to procure subcontracting services at a reasonable price.

From time to time, we engage subcontractors to provide dredging services. We have established a system with respect to the selection and control of subcontractors. Nevertheless, we may not be able to monitor the performance of these subcontractors as directly and efficiently as we do with our own staff.

RISK FACTORS

If a subcontractor fails to provide services as required under a contract for any reason, we may be required to provide these services on a delayed basis or at a higher price than anticipated, which could harm our reputation and our relationships with our customers and potentially expose us to litigation and damage claims. In addition, qualified subcontractors within our budget may not always be readily available when our need to engage subcontractors arises. If we are unable to hire qualified subcontractors at reasonable costs, our ability to complete projects could be impaired. If the amounts we are required to pay subcontractors exceed our estimated amounts, especially in fixed-price contracts with our customers, we may suffer losses on these contracts.

Environmental regulations could force us to incur significant capital and operational costs.

Our operations and facilities are subject to various environmental laws and regulations relating to, among other things:

- dredging operations;
- the disposal of dredged material;
- storm water and waste water discharges;
- transportation and disposal of waste created in dredging and other hazardous substances and materials;
- gas emissions; and
- noise pollution.

We are also subject to laws designed to protect certain marine species and habitats. Compliance with these statutes and regulations can delay performance of particular projects and increase related project costs. These delays and increased costs could have a material adverse effect on our results of operations.

Our projects may involve excavation, transportation, management and disposal of hazardous waste and other hazardous substances and materials. Various laws strictly regulate the removal, treatment and transportation of hazardous waste and other hazardous substances and materials and impose liability for human health effects and environmental contamination caused by these materials. Services rendered in connection with hazardous substance and material removal and site development may involve professional judgments by licensed experts about the nature of soil conditions and other physical conditions, including the extent to which hazardous substances and materials are present, and about the probable effect of procedures to mitigate problems or otherwise affect those conditions. In addition, if the judgments and the recommendations based upon those judgments are incorrect, we may be liable for resulting damages that our customers incur, which may be material. The failure to implement or incorporate certain contractual terms, including any indemnification from our customers or subcontractors, to protect us from incurring such liability could have a material adverse effect on our business, financial condition or results of operations. As at the Latest Practicable Date, we have been in compliance with all applicable laws and regulations in connection with environmental protection and marine species and habitats and have not been subject to any administrative penalties or fines in this respect.

RISK FACTORS

Our business is subject to significant operating risks and hazards that could result in monetary damage or personal injury, which could result in losses or liabilities to us.

The dredging business is generally subject to a number of risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected geological formations, cave-ins below water levels, collisions with fixed objects, disruption of transportation services, flooding, riots, terrorist attacks and the opposition to projects by community or special interest groups. These risks could result in damage to, or destruction of, dredgers, transportation vessels, other maritime structures and buildings, and could also result in personal injury, environmental damage, performance delays, monetary losses or legal liability.

Our safety record is an important consideration for our customers in maintaining business relationships. If serious accidents or fatalities were to occur on any of our projects or our safety record were to deteriorate, we could be held liable for damages arising therefrom or in connection therewith and we could become ineligible to bid on certain work. In addition, any such accidents or fatalities could have a negative effect on our reputation and our prospects for securing future work.

Our operations are susceptible to adverse weather conditions in regions in which we operate.

Substantially all of our services are performed on or under water, causing our business, operating results and financial condition to be subject to seasonal variations due to weather conditions. While capital and reclamation dredging work can generally be performed throughout the year, in some regions where we operate, such as in parts of northern China, our ability to operate and perform our services could be adversely affected in winter, particularly if the harbors or other bodies of water in which we operate freeze over. In addition, the occurrence of severe climatic events such as typhoons, heavy snowfalls or floods could interrupt and have an adverse impact on our business, leading to delays and/or decreased revenue and increased costs. Repercussions of severe weather conditions may include:

- evacuation of personnel and curtailment of services;
- injuries to personnel;
- damage to our equipment, facilities and project work sites resulting in suspension of operations;
- loss of productivity; and
- delay in performing or completing projects.

Our current insurance coverage may not be adequate, and we may not be able to obtain insurance at acceptable rates.

We maintain various insurance policies, including general liability and workers' compensation. We also maintain insurance for our dredgers and other equipment to protect against accident-related risks. However, our insurance policies may not be adequate to protect us from liabilities that we may incur in our business. In addition, most of the projects that we bid on require us to maintain contractors' all-risk and third-party liability insurance. Any inability to obtain such insurance coverage at acceptable rates could have a material adverse effect on our business, operating results and financial condition.

RISK FACTORS

Furthermore, due to a variety of factors such as increases in claims and significant increases in medical costs and wages, our insurance premiums may increase in the future and we may not be able to obtain similar levels of insurance on reasonable terms. Any such inadequacy of, or inability to obtain, insurance coverage at acceptable rates, could have a material adverse effect on our business, operating results and financial condition. In addition, we do not maintain business interruption insurance. Any business disruption or natural disaster could result in substantial costs and a diversion of resources, which would have a material and adverse effect on our business and results of operations.

Increases in labor costs and the occurrence of labor disputes or strikes could materially and adversely affect our profitability and results of operations.

The average level of wages for workers in the PRC has increased recently and may continue to increase in the future. Substantially all of our workforce is employed in the PRC and future changes to labor laws and regulations in the PRC may cause our labor costs to increase. If we are unable to offset the increase in our labor costs or pass along these increased labor costs to our customers, our profitability and results of operations could be materially and adversely affected.

In May and June 2010, there were a series of strikes and protests by workers to demand wage increases at various manufacturing companies in the PRC. We cannot assure you that any disputes, work stoppages or strikes will not arise in the future. Increases in our labor costs and future disputes with our employees could have an adverse effect on our business, financial condition or results of operations.

RISKS RELATING TO OUR CORPORATE STRUCTURE

If the PRC government finds that the Contractual Arrangements or the ownership structures or business operations of our Company or our PRC Operational Entity do not comply with any of the PRC laws and regulations, our business, financial condition or results of operations could be materially and adversely affected.

Revenue generated from the PRC Operational Entity accounted for 99.9%, 100.0% and 100.0% of our total revenue in the years ended December 31, 2008, 2009 and 2010, respectively. Furthermore, 100.0%, 100.0% and 129.5% of our total net profit was derived from the PRC Operational Entity in each of these periods. Net profit derived from our PRC Operational Entity was greater than 100% of our total net profit in 2010 primarily due to net losses incurred by certain subsidiaries of our Company.

In the opinion of our PRC Legal Advisers, (i) the ownership and contractual structures of our Company, Xiangyu PRC and the PRC Operational Entity are not in violation of existing PRC laws and regulations, (ii) the Contractual Arrangements are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect and (iii) the business operations of our Company, Xiangyu PRC and the PRC Operational Entity, as described in this prospectus, are not in any violation of the existing PRC laws and regulations in any material respect. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. In particular, any future acquisition of rights, benefits or assets of or equity interests in the PRC Operational Entity pursuant to the Contractual Arrangements will be subject to the laws and regulations then applicable. Accordingly, we cannot assure you that the PRC regulatory authorities will

RISK FACTORS

not ultimately take a view contrary to that of our PRC Legal Advisers. If we are found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion to deal with such violations, including possibly:

- revoking the agreements constituting the Contractual Arrangements;
- revoking our PRC subsidiaries' business and operating licenses;
- discontinuing or restricting the operations of our PRC subsidiaries or our Group;
- imposing conditions or requirements with which we or our PRC subsidiaries may not be able to comply;
- requiring us or our PRC subsidiaries to restructure our ownership or operations; or
- taking other regulatory or enforcement actions, including levying fines, that could be harmful to our business.

Any of the above possible actions which may be taken by PRC regulatory authorities could hamper or even terminate the flow of economic benefits from the PRC Operational Entity to our Group as stipulated under the Contractual Arrangements. See “Business — Contractual Arrangements” for details. Revenue generated from the PRC Operational Entity accounted for 99.9%, 100.0% and 100.0% of our total revenue in the years ended December 31, 2008, 2009 and 2010, respectively. In addition, 100.0%, 100.0% and 129.5% of our total net profit was derived from the PRC Operational Entity in each of these periods. Accordingly, we may have to rationalize or restructure the operations of the PRC Operational Entity and our PRC subsidiaries under the Contractual Arrangements or our organizational and/or operational structure in the PRC if there is any determination that the existing Contractual Arrangements are not in compliance with any interpretations of laws, regulations, rules or policies. Such rationalization or restructuring could result in the diversion of management attention and the incurrence of substantial operating and production costs which could adversely affect our business, financial condition or results of operations.

The Contractual Arrangements related to critical aspects of our operations with the PRC Operational Entity and its shareholders may not be as effective as direct ownership in providing operational control.

We rely on Contractual Arrangements with the PRC Operational Entity and its shareholders to operate our business. These Contractual Arrangements may not be as effective as direct equity ownership in providing us with control and security over the PRC Operational Entity. Moreover, under the Equity Pledge Agreement described in “Business — Contractual Arrangements”, the shareholders of the PRC Operational Entity have pledged their equity interests in the PRC Operational Entity to Xiangyu PRC. According to the PRC Property Rights Law (中華人民共和國物權法), which became effective on October 1, 2007, an equity pledge is created only when such pledge is registered with the relevant office of the Administration for Industry and Commerce. We have registered the equity pledge by the shareholders of the PRC Operational Entity with the relevant office of the Administration for Industry and Commerce.

RISK FACTORS

However, under the Contractual Arrangements, as a legal matter, if the PRC Operational Entity or its shareholders fail to perform its, his or her respective obligations under these Contractual Arrangements, we may have to incur substantial costs and expend significant resources and time to enforce those arrangements and rely on legal remedies under PRC laws. These remedies may require, among other things, the defaulting party to continue to perform its, his or her obligations under the Contractual Arrangements or to take other remedial measures and pay damages, any of which may not be effective or satisfactory to us. Moreover, in the event that we are unable to enforce these Contractual Arrangements, we may be unable to exert effective control over the PRC Operational Entity, and our ability to conduct our business may be materially and adversely affected.

Shareholders of the PRC Operational Entity may potentially have a conflict of interest with us, and they may breach their contracts with us.

We conduct substantially all of our operations, and generate substantially all of our revenues, through the PRC Operational Entity. Our control over it is based upon the Contractual Arrangements. Some of our Directors are shareholders of the PRC Operational Entity. Conflicts of interest may arise due to the dual roles of those individuals. They may breach their contracts with us if they believe such action furthers their own interest, or if they otherwise act in bad faith. If they breach their contracts with us or otherwise have disputes with us, we may have to initiate legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly disrupt our business operations, adversely affect our ability to control the PRC Operational Entity and/or otherwise result in negative publicity, and we cannot assure you that the outcome of such disputes and proceedings will be in our favor.

Our arrangements with the PRC Operational Entity may be considered by the PRC tax authorities as requiring transfer pricing adjustments.

We could face material adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements with the PRC Operational Entity were not entered into based on arm's length negotiations. Although we based our Contractual Arrangements on those of businesses which are subject to foreign ownership restrictions under the laws and/or regulations of the PRC, if the PRC tax authorities determine that these contracts were not entered into on an arm's length basis, they may adjust our income and expenses for PRC tax purposes in the form of a transfer pricing adjustment. A transfer pricing adjustment could adversely affect us by increasing the PRC Operational Entity's tax liability without reducing our PRC subsidiary's tax liabilities, and could further result in late payment fees and other penalties to the PRC Operational Entity for under-paid taxes. As a result, any transfer pricing adjustment could have a material adverse effect on our financial condition and results of operations.

If we were required to obtain the prior approval of MOFCOM for or in connection with our corporate restructuring, our failure to do so could have a material adverse effect on our business, our operating results and the trading price of our Shares.

On August 8, 2006, six PRC regulatory agencies, namely, the Ministry of Commerce, the SASAC, the State Administration of Taxation, the State Administration for Industry and Commerce, the CSRC and SAFE, jointly adopted the New M&A Rule, which became effective on September 8, 2006. Article 11 of the New M&A Rule requires PRC domestic enterprises or domestic natural persons to obtain prior approval of MOFCOM when an offshore company established or controlled by them proposes to merge with or acquire shares or assets of a PRC domestic company with which such enterprises or persons

RISK FACTORS

have a connected relationship. As part of our Reorganization, Mr. Liu, Ms. Zhou, Xiangyu PRC and the PRC Operational Entity entered into certain agreements constituting the Contractual Arrangements. See “Business — Contractual Arrangements” for details.

Our PRC Legal Advisers have advised us that the New M&A Rule, which governs, among others, the merger with or acquisition of shares or assets of PRC domestic enterprises by domestic persons or enterprises through his or its foreign companies, does not apply to the Contractual Arrangements because the Contractual Arrangements, as a whole, did not constitute a merger or acquisition, and Xiangyu PRC is not a foreign company or a foreign-owned investment company controlled by Mr. Liu, and according to Article 55 of the New M&A Rule, acquisition of domestic companies by foreign-owned investment companies within the PRC would be governed by the New M&A Rule. However, the New M&A Rule is unclear in certain respects, including as to what constitutes a merger with or acquisition of PRC domestic enterprises and what constitutes circumvention of its approval requirements. If MOFCOM subsequently determines that its approval of the Contractual Arrangements should have been obtained, we may face regulatory actions or other sanctions by MOFCOM or other PRC regulatory agencies. Such actions may include MOFCOM compelling us to terminate the contracts between the PRC Operational Entity and our Group, limitations on the extent of our operation in China, the imposition of fines and penalties on our operations in China, delay of or restriction on the repatriation of the net proceeds from the Global Offering into China, restrictions or prohibition on the payment or remittance of dividends by Xiangyu PRC or others, which may have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our Shares.

PRC regulation of loans and direct investment by offshore holding companies to or in PRC entities may delay or prevent us from using the net proceeds we receive from the Global Offering to make loans or additional capital contributions to our PRC subsidiaries.

In using the net proceeds we receive from the Global Offering in the manner described in “Future Plans and Use of Proceeds,” as an offshore holding company with PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries.

Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. Loans by us to our PRC subsidiaries must be approved by the relevant government authorities and must also be registered with the SAFE or its local counterpart.

Any capital contributions to our PRC subsidiaries must be approved by the Ministry of Commerce or its local counterpart. On August 29, 2008, SAFE promulgated Circular 142 — Notice on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知), a notice regulating the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The notice requires that Renminbi converted from the foreign currency-denominated capital of a foreign-invested company may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise. In addition, SAFE strengthened its supervision over the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign-invested company. The use of such Renminbi may not be changed without approval from SAFE, and may not be

RISK FACTORS

used to repay Renminbi loans if the proceeds of such loans have not yet been used. Violations of Circular 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Rules (中華人民共和國外匯管理條例).

We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to our future loans or capital contributions to our direct or indirect subsidiaries. If we fail to receive such registrations or approvals, our ability to use the net proceeds of the Global Offering and to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and ability to fund and expand our business.

We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund cash and financing requirements, and limitations on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company, and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our Shareholders, service any debt we may incur and pay our operating expenses. If any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Furthermore, relevant PRC laws and regulations permit payments of dividends by our PRC subsidiaries only out of their respective retained earnings, if any, determined in accordance with PRC accounting standards and regulations.

Under PRC laws and regulations, our PRC subsidiaries are required to set aside no less than 10% of their respective after-tax profits each year to fund a statutory surplus reserve. This reserve is not distributable as dividends until the accumulated amount of such reserve has exceeded 50% of their respective registered capital. As a result of these PRC laws and regulations, our subsidiaries are restricted in their ability to transfer a portion of their respective net assets to us in the form of dividends. Such limitations on the ability of our subsidiaries to pay dividends to us could adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business. See also “Risk Factors — Risks Relating to the PRC — Our global income and the dividends we may receive from our PRC subsidiaries may be subject to PRC tax under the PRC Enterprise Income Tax Law, which would have a material adverse effect on our results of operations.”

RISKS RELATING TO THE PRC

Changes in the PRC’s economic, political and social conditions, as well as government policies, could have a material adverse effect on our business, financial condition, results of operations and prospects.

All of our business and operations are conducted in China. Accordingly, our business, financial condition, results of operations and prospects are, to a significant degree, subject to the economic, political and social conditions and developments in China. The PRC economy differs from the economies of most developed countries in many respects, including the extent of governmental involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets

RISK FACTORS

and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the economy of China has experienced significant growth over the past decade, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to guide the allocation of resources. Our financial results may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. The PRC government has also recently implemented certain measures, including recent deposit reserve rate increases, in an attempt to control the rate of economic growth. These measures may decrease economic activities in China, which in turn could materially and adversely affect our business, financial condition, results of operations and prospects.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

Our business and operations are conducted in China and governed by PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations to provide protections to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations may involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and could result in substantial costs and diversion of resources and management attention.

Any requirement to obtain prior approval from the CSRC could delay the Global Offering and a failure to obtain this approval, if required, could have a material and adverse effect on our business, operating results, reputation and the trading price of our Shares.

The New M&A Rule purports, among other things, to require offshore special purpose vehicles ("SPVs"), formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC published a notice on its official website specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings. While the application of the New M&A Rule remains unclear, we believe, based on the advice of our PRC Legal Advisers, that approval of the CSRC is not required in the context of the Global Offering as we are not a SPV as defined under the New M&A Rule. However, we cannot assure you that the relevant PRC government agencies, including the CSRC, would reach the same conclusion as our PRC Legal Advisers. If the CSRC or another PRC regulatory body subsequently determines that we need to obtain the CSRC's approval for the Global Offering, we may

RISK FACTORS

face regulatory actions or other sanctions by the CSRC or other PRC regulatory agencies. In such event, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit the extent of our operations in the PRC, delay or restrict the repatriation of the net proceeds from the Global Offering into the PRC, or take other actions that could have a material and adverse effect on our business, financial condition, results of operations and prospects, as well as the trading price of our Shares. The CSRC or other PRC regulatory agencies may also take actions requiring us, or making it advisable for us, to halt the Global Offering before settlement and delivery of the Shares offered hereby. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that such settlement and delivery may not occur.

We cannot predict when the CSRC will promulgate additional rules or other guidance, if at all. If implementing rules or guidance are issued prior to the completion of the Global Offering and consequently we conclude that we are required to obtain CSRC approval, the Global Offering will be delayed until we obtain CSRC approval, which may take several months or longer. Moreover, implementing rules or guidance, to the extent issued, may fail to resolve current ambiguities under this new PRC regulation. Uncertainties and/or negative publicity regarding this new PRC regulation could have a material and adverse effect on the trading price of our Shares.

Fluctuation in the exchange rates of Renminbi may have a material adverse effect on your investment.

The exchange rates between the Renminbi and the Hong Kong dollar, the U.S. dollar and other foreign currencies are affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is pegged against a basket of currencies, determined by the PBOC, against which it can rise or fall by as much as 0.5% each day. As a result, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. However, the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals. For almost two years after July 2008, the RMB traded within a very narrow range against the U.S. dollar, remaining within 1% of its July 2008 high. As a consequence, the RMB fluctuated significantly during that period against other freely traded currencies, in tandem with the U.S. dollar. In June 2010, the PRC government announced that it would increase RMB exchange rate flexibility. However, it remains unclear how this flexibility might be implemented. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or other foreign currency.

As we rely on dividends paid to us by our PRC subsidiaries in China, any significant revaluation of the Renminbi may have a material adverse effect on the value of dividends payable in foreign currency terms. To the extent that we need to convert the net proceeds from the Global Offering and future financing into the Renminbi for our operations, appreciation of the Renminbi against the relevant foreign currencies would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for the purpose of making payments for dividends on our Shares or for other business purposes, appreciation of the Hong Kong dollar against the Renminbi would have a negative effect on the Hong Kong dollar amount available to us.

RISK FACTORS

Governmental control over currency conversion may affect the value of your investment and limit our ability to utilize our cash effectively.

All of our revenue is denominated in Renminbi. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branch is required where Renminbi is to be converted into foreign currencies and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Revenue generated from the PRC Operational Entity accounted for 99.9%, 100.0% and 100.0% of our total revenue in the years ended December 31, 2008, 2009 and 2010, respectively. In addition, 100.0%, 100.0% and 129.5% of our total net profit was derived from the PRC Operational Entity in each of these periods. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders. In addition, since a significant amount of our future cash flow from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies.

Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options and restricted share units may subject such employees or us to fines and legal or administrative sanctions.

Pursuant to the Implementation Rules of the Administration Measure for Individual Foreign Exchange (個人外匯管理辦法實施細則), or the Individual Foreign Exchange Rules, issued on January 5, 2007 by the SAFE and relevant guidance issued by the SAFE in March 2007, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or other qualified PRC agents, to obtain the approval of the SAFE and complete certain other procedures related to the share options or other share incentive scheme. However, no detailed administrative rules have been issued by the SAFE in connection with the registration process and therefore the requirements of the local branches of the SAFE vary significantly. In addition, foreign exchange income from the sale of shares or dividends distributed by the overseas listed company must be remitted into a foreign currency account of such PRC citizens or exchanged into Renminbi. Our PRC citizen employees who have been granted share options or restricted share units, or our PRC option holders, will be subject to the Individual Foreign Exchange Rules upon the listing of our Shares on the Stock Exchange. If we or our PRC option holders fail to comply with these regulations, we or our PRC option holders may be subject to fines and legal or administrative sanctions.

RISK FACTORS

Our global income and the dividends we may receive from our PRC subsidiaries may be subject to PRC tax under the PRC Enterprise Income Tax Law, which would have a material adverse effect on our results of operations.

Under the *PRC Enterprise Income Tax*, effective on January 1, 2008, or the EIT Law, and its implementing rules, both of which became effective from January 1, 2008, an enterprise established outside of the PRC with “de facto management bodies” situated within the PRC could be considered a PRC resident enterprise and will be subject to the PRC enterprise income tax at the rate of 25% on its global income with any relevant foreign tax paid available to be claimed as a foreign tax credit. The implementing rules of the EIT Law define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (“**Guo Shui Fa [2009] No. 82**”, or “**Circular 82**”) (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知，國稅發[2009]82號), on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals or foreigners, like our Company, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. While we do not believe we should be considered a PRC resident enterprise, if the PRC authorities were to subsequently determine that we should be so treated, a 25% enterprise income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability. Further, if we were regarded as a PRC resident enterprise, dividends that we receive from the subsidiaries which are considered as PRC resident enterprises would be exempt from EIT and no withholding tax would be applied either. Nevertheless, our dividends to be distributed may be subject to PRC withholding tax, depending on, among other factors, the residence of our shareholders. For PRC resident corporate shareholders, no withholding tax would be applied. For non-PRC resident individual shareholders, no withholding tax would be applied either, unless the investment is made via a corporate broker. For non-PRC resident corporate shareholders, a 10% withholding tax would be applied, unless there is treaty protection which provides a reduced withholding tax rate. For example, for a Hong Kong corporate shareholder owning at least 25% of our Shares, a 5% withholding tax would apply. Please also see “Regulatory Overview — Tax Laws and Regulations — Withholding Tax”.

We are a Cayman Islands holding company and nearly all of our income is derived from dividends from our PRC subsidiaries. To the extent these dividends are subject to withholding tax, the amount of funds available to us to meet our cash requirements will be reduced.

In addition, because there remains uncertainty regarding the interpretation and implementation of the EIT Law and its implementing rules, it is uncertain whether, if we were regarded as a PRC resident enterprise, dividends we pay with respect to our ordinary shares, or the gain you may realize from the transfer of our ordinary shares, would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our non-PRC corporate shareholders, or if you are required to pay PRC income tax on the transfer of our ordinary shares, your investment in our Shares may be materially and adversely affected.

RISK FACTORS

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on foreign laws against us and our Directors and senior management.

We conduct all of our operations in China and substantially all of our assets are located in China. In addition, the substantial majority of our Directors and senior management reside within China. As a result, it may not be possible for investors to effect service of process outside China upon the substantial majority of our Directors and senior management. Moreover, China does not have treaties with the United States, the United Kingdom or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. As a result, recognition and enforcement in China of judgments of a court in any of these jurisdictions may be difficult.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and the liquidity and market price of the Shares may be volatile.

Prior to the Global Offering, no public market for our Shares existed. Following the completion of the Global Offering, the Stock Exchange will be the only market on which our Shares are listed. We cannot assure you that an active public trading market for our Shares will develop or be sustained. In addition, our Shares may be traded in the public market subsequent to the Global Offering below the Offer Price. The Offer Price will be determined by agreement among us (for ourselves and on behalf of the Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters, and in consultation with the Sole Sponsor), on behalf of the Hong Kong Underwriters and the International Underwriters, and may differ significantly from the market price of our Shares following the completion of the Global Offering. If an active trading market for our Shares does not develop or is not sustained after the Global Offering, the market price and liquidity of our Shares could be materially and adversely affected.

The trading price of our Shares may be volatile, which could result in substantial losses to you.

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of shares of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. Recently, a number of PRC-based companies have listed their securities, or are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards PRC-based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume of our Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenues, earnings and cash flow could cause the market price of our Shares to change substantially. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

RISK FACTORS

The sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and the Controlling Shareholders, could adversely affect the market price of our Shares.

Sales of substantial amounts of our Shares in the public market after the completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. In connection with the Global Offering, we and the Controlling Shareholders have agreed, among other things, not to sell our Shares for six months after the Listing Date without the written consent of the Sole Sponsor and the Sole Global Coordinator. However, the Sole Global Coordinator may release these securities from these restrictions at any time. We cannot predict what effect, if any, significant future sale of our Shares will have on the market price of our Shares.

Holders of our Shares will incur immediate and substantial dilution and may experience further dilution if we issue additional Shares in the future.

The Offer Price of our Shares is higher than the net tangible assets per Share immediately prior to the Global Offering. Therefore, the shareholding of purchasers of our Shares in the Global Offering will experience an immediate dilution in unaudited pro forma adjusted combined net tangible assets to HK\$1.57 per Share, based on the maximum Offer Price of HK\$4.07.

In order to raise capital and expand our business, we may consider offering and issuing additional Shares or securities convertible into Shares in the future. We may also issue additional Shares pursuant to our Share Option Scheme. Purchasers of our Shares may experience dilution in the net tangible assets book value per share of their Shares if we issue additional Shares or securities convertible into Shares in the future at a price which is lower than the net tangible assets book value per Share.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media, some of which may not be consistent with information contained in this prospectus.

We wish to emphasize to potential investors that we do not accept any responsibility for the accuracy or completeness of any press articles or other media and that such press articles or other media were not prepared or approved by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us, or of any assumptions underlying such projections, valuations or other forward-looking information included in or referred to by the media. To the extent that any such statements are inconsistent with, or in conflict with, the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to the PRC and any provinces, cities or regions thereof or with respect to the economy and the property industry of the PRC and any provinces, cities or regions thereof contained in this prospectus.

Facts, forecasts and other statistics in this prospectus relating to the PRC and any provinces, cities or regions thereof or with respect to the economy and the property industry of PRC and any provinces, cities or regions thereof have been derived from various government publications generally believed to be reliable. We have taken reasonable care in the reproduction or extraction of official government

RISK FACTORS

publications for the purpose of disclosure in this prospectus. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, our Selling Shareholder, the Sole Global Coordinator, the Joint Lead Managers, Sole Sponsor, Lead Bookrunner, Co-bookrunner or any of our or their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between government publications and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

Rule 8.12 of the Listing Rules requires a new applicant applying for a primary listing on the Main Board to have a sufficient management presence in Hong Kong. This normally means that at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Since the principal business operations of our Group are managed and conducted in the PRC, the majority of the senior management team of our Group are and will continue to be based in the PRC. As all of our executive Directors are ordinarily resident in the PRC, we would have to appoint two additional executive Directors or to relocate at least two executive Directors to Hong Kong, in order to comply strictly with the requirements under Rule 8.12 of the Listing Rules. Our Directors consider that it would be practically difficult and not commercially feasible for our Company to implement such arrangement. We do not have, and do not contemplate in the foreseeable future, that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

In view of that, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the compliance with Rule 8.12 of the Listing Rules.

In order to ensure that regular communication is effectively maintained between the Stock Exchange and our Company, we will put in place the following measures:

- (a) Our Company has appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, namely, Ms. Elsie Wong, our Company Secretary, and Mr. Dong, our non-executive Director, who will act as our principal channel of communication with the Stock Exchange. Each of Ms. Elsie Wong and Mr. Dong is ordinarily resident in Hong Kong. Each of the authorized representatives of our Company has confirmed that he/she will be available to meet with the Stock Exchange in Hong Kong within a reasonable time upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and electronic means.
- (b) Each of the authorized representatives will be provided means to contact all Directors promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. Each of them is authorized to communicate on behalf of our Company with the Stock Exchange.
- (c) All of our Directors who are not ordinarily resident in Hong Kong possess or are entitled to apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant officers of the Stock Exchange within a reasonable period of time when required.
- (d) Each of the Directors has furnished his/her mobile phone number, office phone number, e-mail address and fax number to our authorized representatives and the Stock Exchange should the Stock Exchange wish to contact any of the Directors.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (e) In the event that a Director expects to travel and be out of office, he/she will provide the phone number of the place of his/her accommodation or other means of communications to our authorized representatives.
- (f) Our Company will retain a compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year after the Listing Date. The compliance adviser will have access at all times to our authorized representatives, the Directors and other senior management of our Company. Such compliance adviser will act as an additional channel of communication with the Stock Exchange.
- (g) Our Company will maintain a principal place of business in Hong Kong at Office 19, 36th Floor, China Merchants Tower, Shun Tak Centre, No. 168–200 Connaught Road Central, Hong Kong.

WAIVER FROM STRICT COMPLIANCE WITH CHAPTER 14A OF THE LISTING RULES

Our Group has entered into certain transactions, which would constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules after the Listing. Details about such transactions together with the application for a waiver from strict compliance with the relevant announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules are set out in the sections headed "Connected Transactions" and "Business — Contractual Arrangements" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules, Chapter 571V of the Laws of Hong Kong and the Listing Rules for the purpose of giving information with regard to our Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Selling Shareholder, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

DETERMINATION OF THE FINAL OFFER PRICE

The Offer Price is expected to be determined by agreement between our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters, and in consultation with the Sole Sponsor) on the Price Determination Date which is expected to be on or around Monday, June 13, 2011 and in any event not later than Wednesday, June 15, 2011. If, for whatever reason, our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters, and in consultation with the Sole Sponsor) are unable to agree on the final Offer Price, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

UNDERWRITING

This prospectus is published solely in connection with the Global Offering. The Global Offering comprises the Hong Kong Public Offering and International Offering subject, in each case, to re-allocation described in the section headed "Structure of the Global Offering" in this prospectus. The number of the Offer Shares is subject to the Over-allotment Option.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and the International Offering is expected to be fully underwritten by the International Underwriters under the terms of the International Underwriting Agreement, subject to the agreement on

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

the Offer Price between the Sole Global Coordinator (for itself and on behalf of the Underwriters, and in consultation with the Sole Sponsor) and us (for ourselves and on behalf of the Selling Shareholder) on the Price Determination Date. For details of the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

Each person acquiring the Offer Shares will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he/she is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken in any jurisdiction other than Hong Kong to permit an offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Offer Shares and any Shares which may be issued upon the exercise of any options to be granted under the Share Option Scheme. Dealings in our Shares on the Stock Exchange are expected to commence on or around Monday, June 20, 2011.

None of our Shares or loan capital are listed on or dealt in on any other exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Selling Shareholder, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

REGISTER OF MEMBERS AND STAMP DUTY

Our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Tricor Investor Services Limited in Hong Kong. Our Company's principal register of members will be maintained by Codan Trust Company (Cayman) Limited in the Cayman Islands.

Dealings in the Shares registered on the register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in HK\$ have been translated, for the purpose of illustration only, from RMB, and vice versa, in this prospectus at the following rates:

HK\$1 : RMB0.83368

The above rate was quoted by PBOC on May 31, 2011. No representation is made that any amounts in RMB or HK\$ can be or could have been at the relevant date converted at the above rate or any other rates or at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons, other entities or product names included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Liu Kaijin (劉開進)	Room 105, Block 5 Qing Yi Ya Qu No. 101 Jie Fang Nan Road Ting Hu District Yancheng City Jiangsu Province People's Republic of China	Chinese
Zhou Shuhua (周淑華)	Room 105, Block 5 Qing Yi Ya Qu No. 101 Jie Fang Nan Road Ting Hu District Yancheng City Jiangsu Province People's Republic of China	Chinese
<i>Non-executive Director</i>		
Dong Liyong (董立勇)	Flat D, 32nd Floor The Waterfront Tower 1 1 Austin Road West Kowloon Hong Kong	Chinese
<i>Independent Non-executive Directors</i>		
Leung Mei Han (梁美嫻)	3 Braga Circuit, Mongkok Kowloon Hong Kong	Chinese
Zhang Jun (張駿)	No. 405, Block 203 Hui Zhong Lane Chaoyang District Beijing People's Republic of China	Chinese
Peng Cuihong (彭翠紅)	Unit 2601, Room 1, Block 315 Zone 3, Li Ze Xi Park Chaoyang District Beijing People's Republic of China	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED

Sole Sponsor

Morgan Stanley Asia Limited
46th Floor
International Commerce Center
1 Austin Road West
Kowloon
Hong Kong

Sole Global Coordinator and Lead Bookrunner

CCB International Capital Limited
34th Floor, Two Pacific Place
88 Queensway
Admiralty
Hong Kong

Co-bookrunner

Guotai Junan Securities (Hong Kong) Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Joint Lead Managers

CCB International Capital Limited
34th Floor, Two Pacific Place
88 Queensway
Admiralty
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Auditors and Reporting Accountants

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Admiralty
Hong Kong

Legal Advisers to our Company

As to Hong Kong law:
Chiu & Partners
40th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to PRC law:

Zhong Lun Law Firm
10th Floor, Tower A
Rongchao Centre
6003 Yitian Road
Futian District
Shenzhen
Guangdong Province
People's Republic of China

As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

As to US law:

Simpson Thacher & Bartlett LLP
35th Floor, ICBC Tower
3 Garden Road
Central
Hong Kong

Legal Advisers to the Underwriters

As to Hong Kong law and US law:

Paul, Hastings, Janofsky & Walker
21st and 22nd Floors, Bank of China Tower
1 Garden Road
Central
Hong Kong

As to PRC law:

Commerce & Finance Law Offices
6th Floor, NCI Tower
A12 Jianguomenwai Avenue
Beijing
People's Republic of China

Property Valuer

Jones Lang LaSalle Sallmanns Limited
6th Floor, Three Pacific Place
1 Queen's Road East
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Receiving Bankers

China Construction Bank (Asia) Corporation Limited
16th Floor, York House
The Landmark
15 Queen's Road Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
15th Floor, Standard Chartered Tower
388 Kwun Tong Road
Kowloon
Hong Kong

CORPORATE INFORMATION

Registered Address

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Headquarters in the PRC

No. 1 Xingyu Road
Baocai Industrial Zone
Panhuang Town
Yancheng City
Jiangsu Province
People's Republic of China

Principal Place of Business in Hong Kong

Office 19, 36th Floor
China Merchants Tower
Shun Tak Centre
Nos. 168–200 Connaught Road Central
Hong Kong

Website Address

www.xiangyu.com.hk⁽¹⁾

Company Secretary

Ms. Elsie Wong
(member of HKICPA)

Authorized Representatives

Mr. Dong Liyong
Flat D, 32nd Floor
The Waterfront Tower 1
1 Austin Road West
Kowloon
Hong Kong

Ms. Elsie Wong
Flat A, 7th Floor
Tower 7, Jubilant Place
99 Pau Chung Street
To Kwa Wan
Kowloon
Hong Kong

Audit Committee

Ms. Leung Mei Han (*Chairman*)
Mr. Zhang Jun
Ms. Peng Cuihong

Note:

(1) The information contained on the website of our Company does not form part of this prospectus.

CORPORATE INFORMATION

Remuneration Committee	Mr. Dong Liyong (<i>Chairman</i>) Ms. Leung Mei Han Ms. Peng Cuihong
Nomination Committee	Mr. Dong Liyong (<i>Chairman</i>) Ms. Leung Mei Han Ms. Peng Cuihong
Cayman Islands Principal Share Registrar and Transfer Office	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong Share Registrar	Tricor Investor Services Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wan Chai Hong Kong
Compliance Adviser	Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Principal Banker(s)	Rural Commercial Bank of Huanghai, Yancheng City, Jiangsu No. 98 Daqing Zhong Road Yancheng City Jiangsu Province People's Republic of China Branch office of Agricultural Bank of China Limited Jianzhong Yancheng City No. 88 Jianjun Zhong Road Yandu District Yancheng City Jiangsu Province People's Republic of China

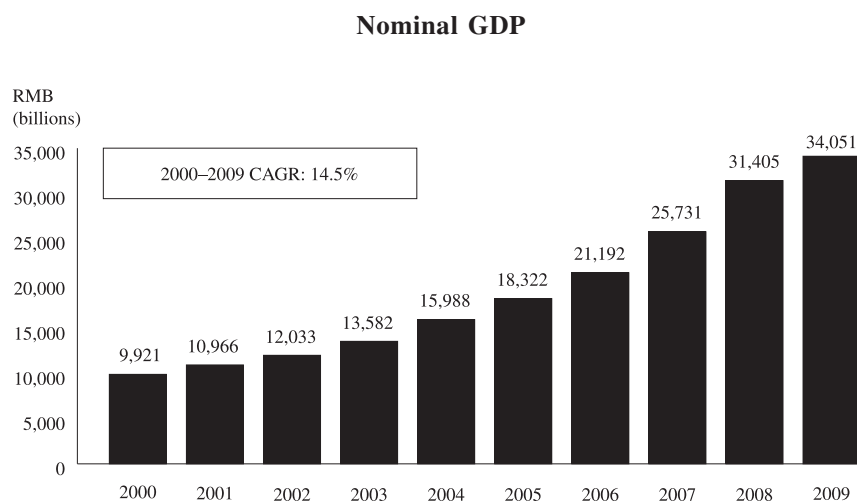
INDUSTRY

Certain facts, information, statistics and data relating to the Chinese economy and the industry in which we operate that are presented in this section and elsewhere in this prospectus are derived from publicly available government official sources (including various publications issued by PRC government entities). The information derived from such sources may not be consistent with the information compiled within or outside China. Moreover, certain facts, information, statistics and data set forth in this section and elsewhere in this prospectus are derived from an industry research report we commissioned from Frost & Sullivan, an independent marketing and consulting agency. For information about Frost & Sullivan, please refer to the section headed “Statutory and General Information — Other Information — Qualification of experts” in Appendix VII. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Selling Shareholder, Sole Global Coordinator, Sole Sponsor, Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy or correctness. Accordingly, such information should not be unduly relied on.

OVERVIEW OF CHINA’S ECONOMIC GROWTH

China’s economy has grown significantly over the past decade. From 2000 to 2009, China’s GDP grew at a CAGR of 14.5%.

The following table illustrates China’s nominal GDP for the periods indicated.



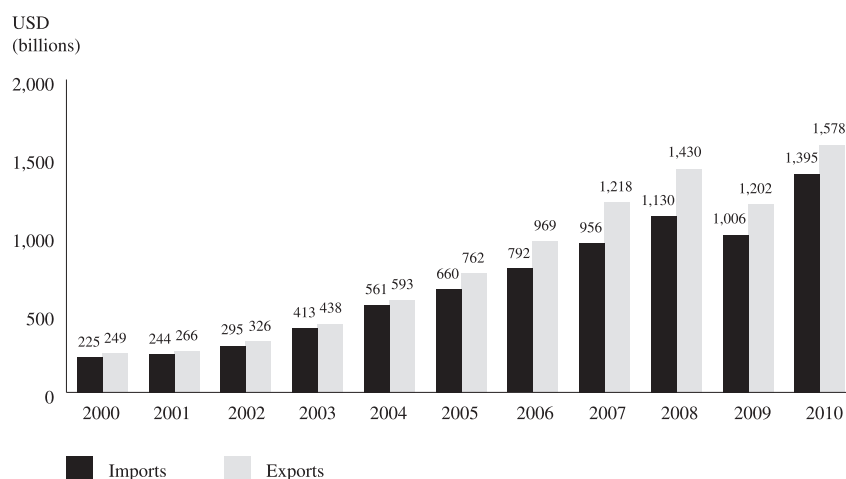
Source: National Bureau of Statistics of China, 2010 Yearbook

INDUSTRY

During this period of strong economic growth, China has experienced significant growth in its international trade. From 2000 to 2010, the total value of imports and exports grew at a CAGR of approximately 20.0% and 20.3%, respectively. The total value of imports and exports decreased in 2009 due to the global economic downturn but has been recovered since 2010.

The following chart illustrates the value of China's imports and exports for the periods indicated.

Value of Imports & Exports

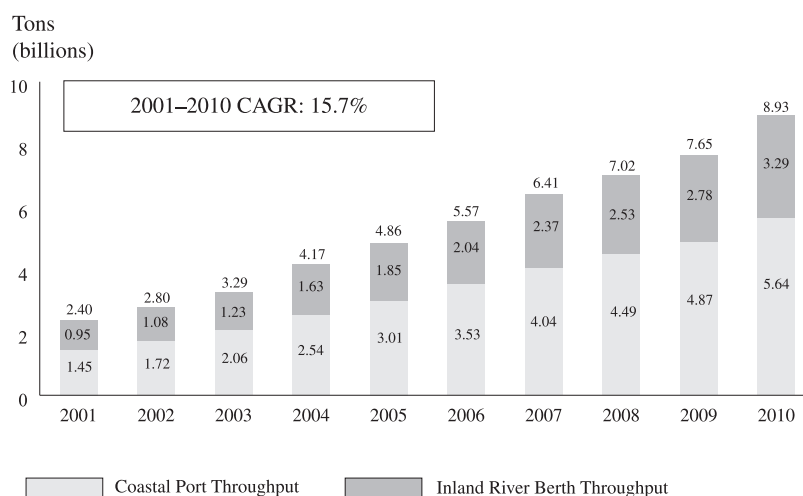


Source: Ministry of Commerce of the People's Republic of China

As a result of increases in import and export volumes, China's annual port throughput has increased steadily in recent years, at a CAGR of 15.7% from 2001 to 2010.

The following chart illustrates China's port throughput for the periods indicated.

Port Throughput



Source: Ministry of Transport of the People's Republic of China

INDUSTRY

The development of China's economy and increase in port throughput have contributed to the growth of the dredging industry in China.

OVERVIEW OF THE PRC DREDGING MARKET

Market overview

There are four general types of dredging activity: capital dredging, reclamation dredging, maintenance dredging and environmental protection dredging.

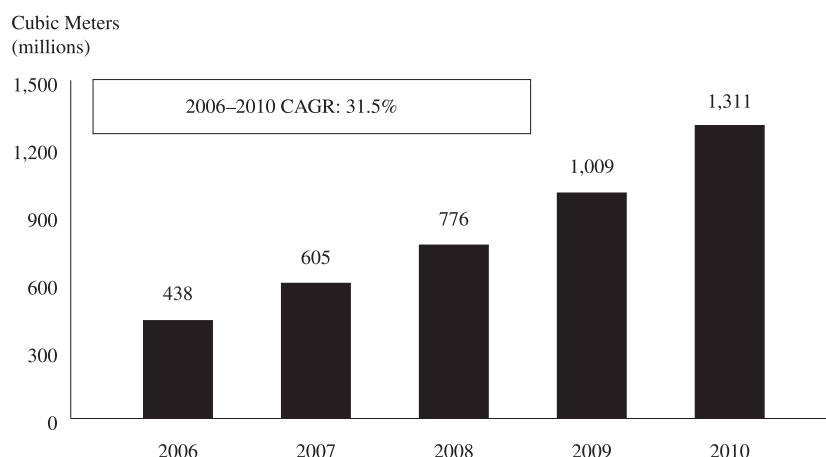
- Capital dredging refers to dredging work during port construction to establish appropriate water dimensions for navigation channels and for other infrastructure projects such as the construction of canals, breakwaters or jetties or for trench digging for pipes, cables or tunnels.
- Reclamation dredging refers to pumping or transferring sand, gravel or other dredged material along or near a sea shore or river bank in order to increase available land.
- Maintenance dredging refers to the regular removal of sediment or other material to maintain navigation channels.
- Environmental protection dredging refers to the removal of contaminated sediment, pollutants or other material from navigation channels to improve water quality, restore aquatic ecosystems or to promote other similar environmental interests.

According to the Frost & Sullivan Report, total dredging volume in China reached 1,311 million cubic meters by the end of 2010, representing a CAGR of 31.5% from 2006. According to the same report, from 2011 to 2015, total annual dredging volume in China is expected to continue growing at approximately 27.1% CAGR and to reach 4,517 million cubic meters by 2015.

INDUSTRY

The following chart illustrates China's total dredging volume for the periods indicated.

Total Dredging Volumes



Source: The Frost & Sullivan Report

The growth of port throughput and the development of coastal industrialized zone areas in China have contributed to the significant growth in capital dredging volume in recent years. Since 1999, more than ten major coastal industrial zones have been or are being expanded, including Yingkou Harbor, Dalian Park Industrial Zone, Dalian Changxingdao Harbor, Caofeidian Industrial Area, Tianjin Port, Jiaozhou Bay, Jiangsu Binhai, Shanghai Linggang, Fujian Ningde and Guangdong Zhanjiang. In 2009, the PRC government announced the national strategy of developing the Liaoning Coastal Economic Zone, Jiangsu Coastland and Yellow River Delta Economic Zone. According to the Frost & Sullivan Report, the expected increases in port throughput and the development of coastal industrialized zone areas will create further demand for capital dredging.

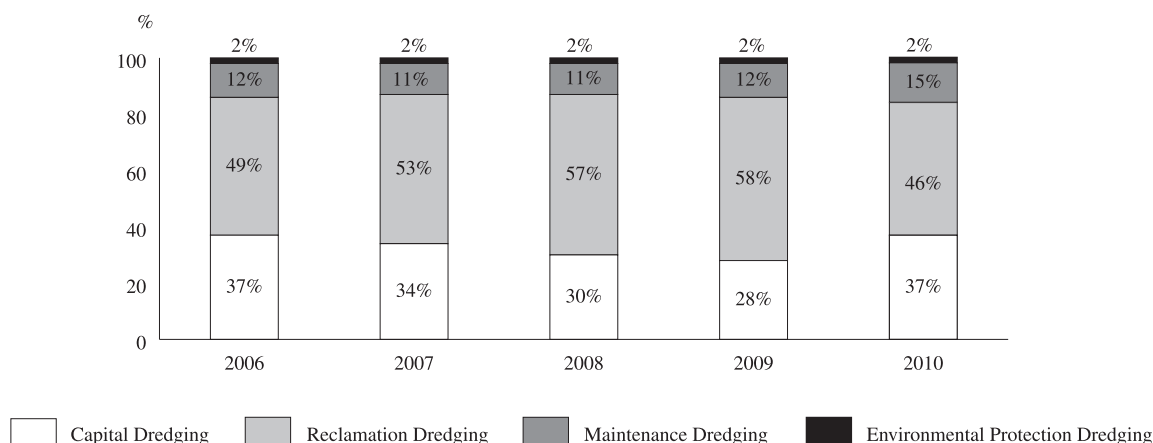
According to the same report, PRC government initiatives to alleviate population pressure and land shortage are expected to contribute to demand for reclamation dredging. Coastal regions have the highest population density in China. In order to address population pressure and land shortage, these regions may adopt land reclamation plans. According to the government working report announced by PRC Prime Minister Wen Jiabao in March 2007 at the National People's Congress, the total cultivated land area in the PRC shall be maintained at not less than 1.8 billion mu (about 120 million hectares). This policy contributes to demand for reclamation dredging in order to supply new land for industry and real estate development uses.

Regular sedimentation and annual runoff from navigable inland rivers in China contribute to demand for maintenance dredging. The Yangtze River, Yellow River and Pearl River have the highest cargo throughput among rivers in China. Each of these rivers requires regular maintenance dredging to maintain navigability. In addition, numerous coastal ports and inland river berths require regular maintenance dredging to maintain appropriate water depth and dimensions for navigation. According to the Frost & Sullivan Report, demand for environmental protection dredging will be driven by widespread pollution problems, particularly in inland rivers and lakes, for which the Chinese government has allocated substantial resources.

INDUSTRY

The following chart sets forth a breakdown of the China dredging market by different dredging type in terms of volume for the periods indicated.

China Dredging Market by Dredging Type



Source: The Frost & Sullivan Report

Currently, the Chinese dredging market faces two major constraints: a shortage of dredging capacity from qualified dredging companies and low dredging efficiency.

According to the Frost & Sullivan Report, the existing capacity of qualified contractors is almost fully utilized, which has resulted in a shortage of dredging capacity in the dredging industry in the PRC. The dredging capacity of qualified dredgers was approximately 1.3 billion cubic meters in 2010, according to the Frost & Sullivan Report. CCCC, China's largest dredging company, increased its capacity by 80 million cubic meters from 2009 to 2010, while the market increased by 302 million cubic meters in the same period. This dredging capacity shortage can be attributed to several factors, including, China's rapid economic growth, which has driven increased investment in ports, inland river waterways and infrastructure, thereby creating higher demand for dredging services. In addition, the dredging capacity shortage is also due in part to the high cost of building new dredgers. According to the Frost & Sullivan Report, the minimum cost of building a new and modern dredger is approximately RMB100 million, and typically the larger the capacity of the dredger to be built, the higher the cost of building it. Because of the intensive capital requirements for building new dredgers, dredging companies may require long periods of time to raise and deploy the capital necessary to expand their dredging capacity. Similarly, the long period of time necessary to build new dredgers has also contributed to the dredging capacity shortage in the PRC. Going forward, the Chinese dredging market, measured in terms of volume, is expected to grow at a CAGR of 27.1% from 2011 to 2015, according to the Frost & Sullivan Report. Due to the limitations on dredging companies' ability to increase their capacity, Frost & Sullivan expects that the Chinese dredging industry will continue to face capacity constraints in the coming years.

Meanwhile, according to the Frost & Sullivan Report, the dredging efficiency in China is relatively low at about 70%, compared to efficiency levels of approximately 90% in developed countries such as the Netherlands, Belgium and the United States. Dredging efficiency is generally supported by highly

INDUSTRY

efficient dredging vessels, dimensions of dredged areas, flow sediment conditions as well as the skill of dredger operators. Efficient dredging vessels are typically equipped with more advanced dredging technology and are able to achieve on average greater dredging volumes over a given period of time than less efficient vessels. The frequency and duration of maintenance and other downtime also contribute to dredger efficiency. In addition, the experience and ability of the dredger technicians operating the dredger can be another important factor that contributes to dredging efficiency. The dredger technicians' judgments about site conditions, digging depth, swing speed, slurry density and velocity and other factors all affect overall dredging efficiency. In China in particular, dredging efficiency is inhibited by a shortage of highly efficient dredgers and skilled technicians.

Competitive landscape

According to the Frost & Sullivan Report, China's dredging market is largely dominated by a few PRC government entities and large state-owned enterprises, which had an estimated market share of 81.9% in 2010 as measured by dredging volume. By comparison, privately owned enterprises, taken together, accounted for an estimated 15.7% of the total dredging volume in China in 2010. That combined market share remained relatively stable between 2006 and 2010. The top five dredging companies in the PRC in 2010 as measured by dredging volume were CCCC, us, Changjiang Water Bureau, Tianjin G&H Shipping Company Limited and Shanghai Darun Port Construction Group Co., Ltd. In 2010, only seven privately owned companies had greater than 1% market share as measured by output from dredging services, among which we were the largest with a market share of approximately 2.4%. Our dredging volume of 32.0 million cubic meters in 2010 accounted for approximately 15.5% of the total dredging volume contributed by privately owned enterprises. The dredging volume of our main competitors, including Tianjin G&H Shipping Company Limited, Shanghai Darun Port Construction Group Co., Ltd. and Zhejiang Haizhong Zhou Group Co., Ltd. accounted for approximately 14.5%, 12.5% and 10.5%, respectively, of the total dredging volume contributed by privately owned companies in 2010, according to the Frost & Sullivan Report.

However, we believe that privately owned enterprises will play an increasingly important role in the dredging market in China for two main reasons. First, we expect that capacity constraints currently experienced by state-owned companies will provide more business opportunities to privately owned companies. Secondly, we believe that the Chinese government is encouraging increased participation by privately owned businesses in the transportation infrastructure sector, as evidenced by the Several Opinions on Encouraging and Guiding the Healthy Development of Investments from the Private Sector (國務院關於鼓勵和引導民間投資健康發展的若干意見) issued by the State Council in May 2010.

Barriers to entry and key factors to success

There are significant barriers to entry in the PRC dredging market. First, dredging companies may encounter difficulty in obtaining necessary qualifications. Dredging companies must meet the strict requirements of the National Port and Waterway Engineering Construction Contracting Qualifications. As of December 31, 2010, only 39 enterprises had obtained a Level I or Level II general contracting certificate for port and waterway construction (港口與航道工程施工總承包企業資質), which must be obtained in order to undertake large-scale dredging projects in the PRC. Second, dredging companies have significant capital requirements. A large amount of initial investment is necessary to build, buy or lease vessels. Third, dredging companies face human resources constraints. Having available, experienced dredging personnel is required to obtain necessary qualifications and is also necessary to

INDUSTRY

ensure the quality and efficiency of dredging operations. China has a limited supply of experienced dredging personnel, including dredger and dredging equipment operators. Fourth, it is difficult for dredging companies to establish and maintain client relationships. The Chinese dredging market is dominated by state-owned enterprises, including CCCC. In addition, most privately owned dredging companies do not have the ability to bid projects on their own. Most of their contracts are subcontracts from state-owned enterprises and not contracts signed directly with project owners. Therefore, privately owned companies must develop good relationships with state-owned enterprises and government entities in order to expand their businesses.

Foreign dredging companies also face significant barriers to entry to the Chinese dredging market. According to the Administration Rules on Certification of Construction Enterprise (建築業企業資質管理規定) promulgated on June 26, 2007 by the Ministry of Construction, enterprises engaging in the dredging business must obtain either one of two types of contracting certificates, including the general contracting certificate for port and waterway construction (港口與航道工程施工總承包企業資質) and the specialty contracting certificate for waterway construction (航道工程專業承包企業資質). Under the Standards for Classification of General Contracting Certificate for Construction (施工總承包企業資質等級標準) and the Standards for Classification of Specialty Contracting Certificate for Construction to Enterprises (專業承包企業資質等級標準), one of the requirements for the issuance of either of such certificates by the relevant PRC authorities is that the applicant enterprise must be the registered owner of vessel(s) with stipulated functions. Under the PRC Ship Registration Regulation (中華人民共和國船舶登記條例), the Maritime Safety Administration of the PRC will not register the ownership of a vessel to an enterprise unless at least 50% of its registered capital has been contributed by a Chinese investor(s). As a result, foreign investment in the dredging business sector is limited to no more than a 50% equity interest in a given enterprise, notwithstanding the fact that the dredging business sector is one of the permitted foreign investment industries under the Catalog for the Guidance of Foreign Investment Industries. In addition, certain foreign dredging companies face tax charges of around 30%, including business tax, import tax and withholding tax.

Cost of Fuel

Fuel and other petroleum-based products are used by dredging companies to operate their dredgers and other equipment, and can represent a large component of these companies' operating cost. The price of crude oil experienced a high level of fluctuation during the global financial crisis in 2008. In 2009 and 2010, the price of crude oil continued to fluctuate, and the highest price of crude oil was 140.1% higher than the lowest such price during this period, based on the Tapis crude oil benchmark. The average price per barrel of crude oil was approximately US\$104, US\$65 and US\$84 in 2008, 2009 and 2010, respectively, based on the Tapis crude oil benchmark.

REPORT COMMISSIONED FROM FROST & SULLIVAN

We have included certain information from the Frost & Sullivan Report in this prospectus. Frost & Sullivan, an independent marketing and consulting agency founded in 1961, was commissioned by us to conduct research and prepare a report on the dredging market in China. Frost & Sullivan currently has more than 40 global offices and 1,800 industry consultants. The fees we have agreed to pay to Frost & Sullivan were negotiated between the parties on an arm's length basis and our Directors believe that the fees are in line with market rates. We have agreed to pay Frost & Sullivan a total commission of RMB928,000 for its research and report.

INDUSTRY

The methodology used by Frost & Sullivan in preparing the Frost & Sullivan Report involved conducting both primary and secondary research obtained from numerous sources within the dredging industry in China. The primary research involved interviews with the leading dredging companies in China, national-level departments of the Ministries of Transport and Water Resources of the PRC, and the China Dredging Association, an industry association. Supply-side interviews were used as a cross-checking mechanism to verify the accuracy of market share and revenue figures that were not contained in publicly available company reports. Secondary research was conducted through examining PRC government reports, annual reports of public dredging companies in China and reports published by the China Dredging Association. Market size and company revenue forecasts were obtained from historical data analysis plotted against macroeconomic factors and mapped against the drivers and constraints of the Chinese dredging market to arrive at estimates.

REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATED TO SHIPS AND OCEAN TRAFFIC SAFETY

Maritime Regulation

Laws and regulations related to maritime safety

According to the Provisions Concerning the Functions Allocation, Internal Organization Structure and Personnel Establishment of the Ministry of Transport (the “**MOT Functions Provisions**”) (交通部職能配置、內設機構和人員編製規定) issued by the General Office of the State Council on June 18, 1998, the original port authority of the PRC and the original ship examination authority of the PRC were merged to form the Maritime Safety Administration of the PRC, an authority directly under MOT, which is responsible for exercising the administrative functions of maritime safety supervision and administration, prevention of ship contamination, examination of ships and maritime facilities, and navigational safeguards. In addition, according to the Notice Issued by the General Office of the State Council Concerning the Proposal for the Establishment of a Maritime Organization Directly Under MOT (國務院辦公廳關於印發交通部直屬海事機構設置方案通知), which became effective on September 26, 1999, MOT has also set up various local maritime authorities directly under it, and direct branch offices, where necessary.

Laws and regulations related to ships

According to the PRC Maritime Law (the “**Maritime Law**”) (中華人民共和國海商法) promulgated by the Standing Committee of the National People’s Congress of the PRC and effective as of July 1, 1993, and the PRC Ship Registration Regulation (中華人民共和國船舶登記條例) promulgated by the State Council of the PRC on June 2, 1994 and effective as of January 1, 1995, the acquisition, transfer or extinction of the ownership of a ship and the establishment, transfer or extinction of ship mortgage or bareboat charter must be registered with the ship registration authority; no such acquisition, transfer or extinction of the ship’s ownership or mortgage, or the bareboat charter shall act against a third party unless registered. The relevant maritime safety administration is responsible for registering the ownership of the ship and issuing the ownership certificate. Any transfer of ownership of a ship must be made by written contract. The owner of a ship or those authorized thereby may effect a mortgage of the ship. Any mortgage of a ship must be established by a written contract.

All ships registered or intended to be registered in the PRC shall apply for statutory examination with the ship examination authority in accordance with the provisions of the Interim Measures for the Administration of Ships Examination (船舶檢驗工作管理暫行辦法), which became effective on November 9, 2000. Pursuant to the provisions of the Regulations of the PRC for the Examination of Ships and Maritime Facilities (中華人民共和國船舶和海上設施檢驗條例), which became effective on February 14, 1993, the examination of ships may be conducted by the ship examination authority established by the ship examination bureau (currently, the PRC Maritime Safety Bureau), the local ship examination authority established by the competent transport authority of the provincial People’s government or the examination authorities entrusted, designated or recognized by the PRC Maritime Safety Bureau. A corresponding examination certificate will be issued by the ship examination authority in accordance with relevant requirements after the ship has passed the examination.

REGULATORY OVERVIEW

Laws and regulations related to maritime traffic safety

According to the PRC Maritime Traffic Safety Law (中華人民共和國海上交通安全法) promulgated by the National People's Congress of the PRC on September 2, 1983 and effective as of January 1, 1984, ships shall be manned with qualified crew members to ensure the ships' safety. The captain, chief engineer, pilot, engineers, radio and telephone operators and similar personnel on board seaplanes or submersibles must hold valid job certificates. All other crew members must undergo specialized technical training required for their work. Ships of Chinese nationality sailing on domestic routes that enter and leave domestic harbors must obtain port entry and departure visas. Construction operations to be carried out on the surface or underwater in coastal waters and the demarcation of corresponding safe operation zones must be reported to the competent authorities for examination and approval and must be publicly announced.

According to the Ship Safety Inspection Rules of the PRC (中華人民共和國船舶安全檢查規則) promulgated by the Ministry of Transport on November 30, 2009, the relevant maritime safety administration is responsible for inspecting, among others, the manning levels, the structures, facilities and equipments, cargo handling equipments of the ships, and certificate of competency obtained by and health conditions of the crews. After they finish the inspections, the relevant maritime safety administration will issue a supervision and inspection records book that must be kept in the ship. The owner, operator or manager must rectify according to the corrective opinions of and actions required by the relevant maritime safety administration, or they will face a fine of up to RMB30,000.

Laws and regulations related to dredging

On December 7, 2006, the Ministry of Transport promulgated the Notice on Issuing the Quality Inspection Standards of Dredging and Reclamation (“**the Notice**”) (JTJ324-2006) 《疏浚與吹填工程質量檢驗標準》(JTJ324-2006)) and it came into effect on June 1, 2007. The Notice mainly regulates infrastructure dredging engineering and maintenance dredging engineering. According to the Notice, the Quality Inspection Standards of Dredging and Reclamation (JTJ324-2006) have been approved as mandatory industry standards for the dredging industry.

Laws and regulations related to environmental protection

Pursuant to the Environmental Protection Law of the PRC (the “**Environmental Protection Law**”) (中華人民共和國環境保護法) promulgated by the Standing Committee of the National People's Congress of the PRC and effective as of December 26, 1989, the environmental protection department of the State Council sets national discharge standards for pollutants. The governments of provinces, autonomous regions and municipalities directly under the central government may issue local standards that are stricter, but not more lenient, than the national standards. An entity discharging pollutants in a region where there are local standards for the discharge of pollutants must comply with those standards. Entities discharging pollutants must report and register with the relevant environmental protection authorities. Entities discharging pollutants in excess of the standards must pay a charge for the excessive discharge and assume responsibility for the remediation of the pollution. According to the Marine Environmental Protection Law (中國人民共和國海洋環境保護法) promulgated by the Standing Committee of the National People's Congress of the PRC and effective as of December 25, 1999, an entity discharging pollutants or wastes directly into the sea must pay a discharge fee according to relevant regulations.

REGULATORY OVERVIEW

Pursuant to the Water Pollution Prevention Law of the PRC (中華人民共和國水污染防治法) promulgated by the General Committee of the National People's Congress of the PRC on November 1, 1984, amended on February 28, 2008 and effective as of June 1, 2008 and the Implementation Rules of the Law of the PRC on Prevention and Control of Water Pollution (中華人民共和國水污染防治法實施細則) promulgated and effective as of March 20, 2000, the environmental protection department of the county government or above levels is responsible for the prevention and control of water pollution, and the maritime administration department under the transport authorities is responsible for the prevention and control of water pollution caused by ships.

Pursuant to the Law on Environmental Impact Evaluations of the PRC (中華人民共和國環境影響評價法) promulgated on October 28, 2002 and effective as of September 1, 2003, depending on the magnitude of the impact of its business operations on the environment, an enterprise must prepare either an environmental impact assessment report, or an environmental impact assessment report in the standard form, or an environmental impact assessment registration form, setting forth the specific impact the proposed construction project may have on the environment and any measures to prevent or mitigate the impact for approval by the government authority prior to commencement of construction of the relevant project.

Pursuant to the Regulations on the Control over Dumping Wastes into the Sea Waters (中華人民共和國海洋傾廢管理條例) promulgated by the State Council of the PRC on March 6, 1985, and the Implementing Measures of the Regulations on the Control over Dumping Wastes into the Sea Waters (中華人民共和國海洋傾廢管理條例實施辦法) promulgated by the State Ocean Administration on September 25, 1990, the departments responsible for regulating the dumping of waste are the State Oceanic Administration and its agencies. In order to dump waste into the ocean, a company must apply for permission from the relevant department. Waste to be dumped into the ocean is divided into three categories with corresponding permit categories, namely emergency dumping permits, special dumping permits and general dumping permits, which must be obtained before the dumping of the waste into the ocean. Emergency dumping permits can be used once only, whereas special dumping permits and the general dumping permits are valid for up to six months and one year, respectively.

Pursuant to the Classification and Assessment Procedures of Dumping of Dredged Materials Into Ocean (疏浚物海洋傾倒分類和評價程序) promulgated by the State Oceanic Administration on December 30, 2002, dredged materials are divided into three categories including clean dredged materials (清潔疏浚物), contaminated dredged materials (沾污疏浚物) and heavily contaminated dredged materials (污染疏浚物). Clean dredged materials (清潔疏浚物) may be dumped into the designated ocean zones provided that a general dumping permit is obtained from relevant PRC authorities. Dredged materials biological inspection must be carried out toward both contaminated dredged materials (沾污疏浚物) and heavily contaminated dredged materials (污染疏浚物) before they are dumped into the ocean. Contaminated dredged materials (沾污疏浚物) may be dumped into the designated ocean zones provided that a special dumping permit is obtained from the relevant PRC authorities, and whether the contaminated dredged materials shall go through proper treatment procedures before they are dumped into the ocean would depend on the results of the dredged materials biological inspection.

The PRC authorities may allow the dumping of the heavily contaminated dredged materials (污染疏浚物), which they consider may not heavily pollute the ocean, into the designated ocean zones but the dumped amount would be limited. The heavily contaminated dredged materials (污染疏浚物) which may

REGULATORY OVERVIEW

heavily pollute the ocean are generally not allowed to be dumped into the ocean except in the case that the occurrence of an incident makes dumping thereof into the ocean really necessary, and in such case, the heavily contaminated dredged materials (污染疏浚物) may be allowed to be dumped into designated ocean zones after a special treatment is conducted and an emergency dumping permit is obtained from the PRC authorities.

Laws and Regulations Governing Foreign Investment

Foreign investment in the PRC

Common forms of direct foreign investment in the PRC include Sino-foreign joint ventures, Sino-foreign cooperative joint ventures and wholly foreign-owned enterprises.

Wholly foreign-owned enterprises

According to the Law of the PRC on Wholly Foreign-owned Enterprises (中華人民共和國外資企業法) amended by the Standing Committee of the National People's Congress of the PRC on October 31, 2000 and its implementation rules, the application for establishment of a Wholly Foreign-owned Enterprise (“WFOE”) must be reviewed and approved by the Ministry of Commerce or its competent local counterparts. Where two or more foreign investors jointly apply for establishment of a WFOE, a copy of the contract between the joint investors must be submitted to the relevant approval authority for its record. A WFOE must obtain a business license from the relevant local Administration for Industry and Commerce prior to commencement of its business. The form of organization of a WFOE could be a limited liability company and other forms of liability may be adopted after approval. In case of a limited liability company, the foreign investor shall be liable for the enterprise to the extent of its/his subscribed capital contribution. In case of any other liability form, the foreign investor shall be liable for the enterprise according to the PRC laws and regulations. The foreign investor may make its/his capital contribution by installments, provided that the last installment shall be paid within two years after the date of issuance of the business license. Among them, the first installment shall not be less than 15% of the total subscribed capital contribution of the foreign investor and shall be paid within 90 days upon the date of issuance of the business license of the WFOE.

Foreign exchange controls

The Regulations of the PRC on Foreign Exchange Control (中華人民共和國外匯管理條例) (the “**New Foreign Exchange Regulation**”) promulgated on January 29, 1996 and amended on January 14, 1997 and August 1, 2008, contains detailed provisions in relation to foreign exchange control. According to the New Foreign Exchange Regulation, the retaining or selling of the foreign exchange earnings obtained from capital account shall be subject to the approval of foreign exchange authorities.

Enterprises within the PRC which require foreign exchange for their ordinary trading and non-trading activities, import activities and repayment of foreign debts may purchase foreign exchange from designated banks if the application is supported by the relevant documents. Furthermore, foreign-invested enterprises (“FIEs”) may distribute profit to their foreign investors with funds in their foreign exchange bank accounts kept with designated banks. Should such foreign exchange be insufficient, enterprises may purchase foreign exchange from designated banks upon the presentation of the resolutions of the directors on the profit distribution plan of the particular enterprise.

REGULATORY OVERVIEW

According to the Notice of the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) issued by SAFE on August 29, 2008, a foreign-invested enterprise must designate a competent accounting firm to verify the capital fund prior to application for the settlement of the foreign currency capital. The settled foreign currency capital must be used only for the type of business approved by the related authorities and must not be used for equity investment except as otherwise provided. It is also prohibited to use the settled foreign currency capital for purchasing not-self-use domestic real estate except if the foreign-invested enterprise is incorporated for real estate business.

On October 21, 2005, SAFE promulgated Circular 75, effective as of November 1, 2005, which abolished the previous rules issued in January and April 2005. Under Circular 75, PRC residents are required to register with the local competent SAFE branches before establishing or controlling any company, referred to in the circular as an “offshore special purpose vehicle” (“SPV”), outside of the PRC for the purpose of offshore capital financing. Any change of shareholding or any other material capital alteration in such SPV must be registered or filed within 30 days starting from the date of shareholding transfer or capital alteration. The new rules also provide that PRC residents who have established SPV or acquired control of SPV prior to November 1, 2005 must register their offshore investment by March 31, 2006.

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors

In August 2006, MOFCOM, together with the SASAC, State Administration of Taxation, State Administration for Industry and Commerce, CSRC and SAFE, issued the New M&A Rule, which became effective on September 8, 2006. The New M&A Rule replaces a regulatory framework governing foreign acquisitions of Chinese companies previously referred to as the “Interim Provisions on Merger and Acquisition of Domestic Enterprises by Foreign Investors” (the “**Interim M&A Provisions**”) issued in 2003. An SPV is defined under the New M&A Rule as an offshore entity directly or indirectly controlled by PRC individuals or enterprises with the objective of an overseas listing, and the main assets of which are its rights and interests in an affiliated domestic PRC enterprise. Under the New M&A Rule, an approval is required by central level MOFCOM for (1) the establishment of an SPV for overseas listings by PRC companies; and (2) the SPV’s acquisition of PRC affiliates. PRC enterprises and PRC ultimate shareholders of the SPV must, within six months of receipt, remit into China any dividends, profit and proceeds of any capital adjustments received from the SPV. In addition, the offshore listing of an SPV under the New M&A Rule is subject to approval by the CSRC.

Laws and Regulations related to Labor and Safety

Effective as of January 1, 2008, labor contracts must be in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers under The Labor Contract Law of the PRC (中華人民共和國勞動合同法) (the “**Labor Contract Law**”). Enterprises and institutions are forbidden to force the laborers to work beyond the time limit and the employers shall pay laborers overtime work in accordance with national regulations. In addition, labor wages must not be lower than local standards for minimum wages and must be paid to the laborers timely.

REGULATORY OVERVIEW

According to The Labor Law of the PRC (中華人民共和國勞動法) effective as of January 1, 1995, enterprises and institutions shall establish and perfect its system of workplace safety and sanitation, strictly abide by rules and standards on work place safety and sanitation of the State, and educate laborers of work place safety and sanitation. Workplace safety and sanitation facilities must comply with standards fixed by the State. The enterprises and institutions must provide laborers with workplace safety and sanitation conditions in compliance with stipulations and relevant labor protection regulations of the State.

Effective as of November 1, 2002, enterprises and institutions must be equipped with the measures for safe production as provided in the PRC Production Safety Law (中華人民共和國安全生產法) (the “**Production Safety Law**”) and other relevant laws, administrative regulations, national standards and industrial standards under the Production Safety Law. Any entity that is not equipped with the measures for safe production is not allowed to engage in production and business operation activities. Enterprises and institutions must offer education and training programs to employees regarding production safety. The design, manufacture, installation, use, checking, maintenance, repair and disposal of safety equipment must conform with national or industry standards. In addition, enterprises and institutions must provide personal protective equipment that conforms with national or industry standards for their employees and must supervise and educate them on how to use the equipment according to the prescribed rules.

Pursuant to the Regulation on Production Safety Licenses (安全生產許可證條例) promulgated by the State Council of the PRC on January 13, 2004, the PRC government establishes a production safety licensing system for enterprises engaged in mining, construction, and the production of dangerous chemicals, fireworks and crackers, and blasting equipment for civil use. These enterprises are not allowed to engage in production activities without production safety licenses. The administrative department of construction under the State Council is in charge of issuance and administration of production safety licenses for construction enterprises managed by the central government. The production safety licenses for other construction enterprises are issued and administrated by the administrative departments of construction under the People’s governments of provinces, autonomous regions, and municipalities directly under the Central government. The valid period for a production safety license shall be three years. If a production safety license needs to be renewed upon its expiration, the enterprise shall go through the renewal procedures three months prior to such expiration with the administrative department(s) who issue the production safety license.

TAX LAWS AND REGULATIONS

The New Enterprise Income Tax Law of the PRC and its implementing rules

Prior to January 1, 2008, income tax payable by foreign-invested enterprises in the PRC was governed by the Foreign-Invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) (“**old FIE Tax Law**”) promulgated on April 9, 1991 and effective as of July 1, 1991 and the related implementation rules. According to the old FIE Tax Law and the relevant implementation rules, foreign-invested enterprises engaging in the production of goods and provision of services with an expected business life of over 10 years were to enjoy full exemption from income tax for two years beginning in the first year of achieving profitability, and thereafter were to enjoy a 50% discount in income tax for the following three years (that is, the third to fifth year from the year of achieving profitability). However, under the Enterprise Income Tax Law of the PRC (中華人

REGULATORY OVERVIEW

民共和國企業所得稅法) (“**EIT Law**”), which was promulgated on March 16, 2007 and became effective on January 1, 2008, income tax rates applicable to both domestic and foreign-invested enterprises were unified at 25% effective from January 1, 2008. Enterprises which enjoyed income tax rates lower than the standard rate of 25% are given a five-year transitional period. Such enterprises will continue to enjoy the lower tax rate before they are gradually subject to the tax rate of 25% within the transitional period. Enterprises which were entitled to two years of 100% exemption and three years of 50% reduction on tax payments before the EIT Law was promulgated may continue to enjoy such exemption and reduction until the term of such privilege expires.

Furthermore, the Notice Regarding the Determination of Chinese-controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of “de facto management body” (Guo Shui Fa [2009] No. 82) (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知，國稅發[2009]82號) promulgated by the State Administration of Taxation currently in force has clarified the conditions under which a foreign company invested in by a Chinese enterprise or a group of Chinese enterprises as its majority shareholders would be considered as a PRC tax resident enterprise which has its “de facto management body” located in the PRC. However, the relevant PRC tax rules have not clarified whether and under what conditions a foreign company invested by PRC natural persons as its majority shareholders will be considered as a PRC tax resident enterprise having its “de facto management body” located in the PRC, and currently, it is uncertain whether the PRC local tax authority will make such determination. As at the Latest Practicable Date, we have not received any document from the PRC local tax authorities informing or confirming our Company as a PRC tax resident enterprise.

Business tax

Pursuant to the amended “Provisional Regulations of the People’s Republic of China on Business Tax” (中華人民共和國營業稅暫行條例) enacted by the State Council on November 10, 2008 and enforced on January 1, 2009 and its “Implementation Rules on the Provisional Regulations of The People’s Republic of China on Business Tax” (中華人民共和國營業稅暫行條例實施細則) issued by the Ministry of Finance on December 15, 2008, the tax rate applicable to construction services is 3%.

Withholding tax

The EIT Law removes the prior tax policy that dividends paid by FIEs to foreign investors were exempted from PRC income tax profits. According to the EIT Law, dividends paid to foreign investors will now be subject to a 10% withholding tax. However, for non-PRC resident shareholders from countries or regions that have signed bilateral tax agreements with China, the withholding rate may be reduced to as low as 5% depending on the terms of the applicable tax treaty.

In accordance with the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “**Relevant Tax Treaties**”) signed on August 21, 2006, a 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident shareholder, provided that the Hong Kong resident shareholder holds at least 25% of the registered capital of the PRC company. The 10% withholding tax rate applies if the Hong Kong resident shareholder holds less than 25% of the registered capital of the PRC company. Further, pursuant to the Circular of State Administration of Taxation on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties (Guo Shui Fa

REGULATORY OVERVIEW

[2009] No. 124) (關於印發《非居民享受稅收協定待遇管理辦法(試行)的通知》, 國稅發[2009]124號), which became effective on October 1, 2009, the preferential tax rate under the relevant tax treaties does not automatically apply. Approvals from competent local tax authorities are required before an enterprise can enjoy the relevant tax treatments relating to dividends under the relevant tax treaties. In addition, in accordance with the Notice of the State Administration of Taxation on How to Understand and Determine the “Beneficial Owners” in the Relevant Taxation Treaties (Guo Shui Han [2009] No. 601) (關於如何理解和認定稅收協定中「受益所有人」的通知, 國稅函[2009]601號) issued by the State Administration of Taxation on October 27, 2009, the term “Beneficial Owners” refers to persons who have the right of ownership and disposal over the item of income, or the right or property from which the item of income is derived. A Beneficial Owner generally conducts substantive business activities. The tax treaty benefits will be denied to “conduit” or shell companies without actual business. The PRC tax authorities will evaluate whether an applicant (income recipient) can qualify as a “Beneficial Owner” under the relevant tax treaties on a case-by-case basis, and, in conducting such evaluation, the taxation authorities will examine the substance rather than the form of the relevant case. Further, pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements (Guo Shui Han [2009] No. 81) (國家稅務總局關於執行稅收協定股息條款有關問題的通知, 國稅函[2009]81號) issued by the State Administration of Taxation on February 20, 2009, the preferential tax rate under the relevant tax treaties shall only apply to a Hong Kong tax resident that directly holds at least 25% of the registered capital of a PRC company for a period of 12 consecutive months prior to receiving the dividends.

Restriction on foreign investment in the dredging business sector

According to the Administration Rules on Certification of Construction Enterprise (建築業企業資質管理規定) promulgated on June 26, 2007 by the Ministry of Construction, enterprises engaging in the dredging business must obtain either of the two types of contracting certificates, *i.e.*, the general contracting certificate for port and waterway construction (港口與航道工程施工總承包企業資質) or the specialty contracting certificate for waterway construction (航道工程專業承包企業資質). Under the Standards for Classification of General Contracting Certificate for Construction (施工總承包企業資質等級標準) and Standards for Classification of Specialty Contracting Certificate for Construction to Enterprises (專業承包企業資質等級標準), one of the requirements for issuance of either such certificate by the relevant PRC authorities is that the applicant enterprise must be the registered owner of vessel(s) with stipulated functions. Under the PRC Ship Registration Regulation (中華人民共和國船舶登記條例), the Maritime Safety Administration of the PRC will not register the ownership of a vessel to an enterprise unless at least 50% of its registered capital has been contributed by Chinese investor(s). As a result, foreign investment in the dredging business sector is limited to no more than a 50% equity interest in a given enterprise, notwithstanding the fact that the dredging business sector is one of the permitted foreign investment industries under the Catalog for the Guidance of Foreign Investment Industries.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

CORPORATE DEVELOPMENT

The origin of our Group dates back to July 2002 when Power Wealth HK was incorporated in Hong Kong.

The PRC Operational Entity was established in July 2007 to engage in the dredging business in the PRC, where the dredging market presented business opportunities and potential for growth. The following table highlights the key milestones in the corporate and business development of our Group since inception:

July 2002	Power Wealth HK was incorporated in Hong Kong.
July 2007	The PRC Operational Entity was formed to engage in the dredging business in the PRC.
August 2007	We were first engaged by TDC Port and other customers and commenced capital and reclamation dredging services for the port expansion project in the Caofeidian Industrial Area.
July 2008	Mr. Liu injected as capital contribution to our Group the first grab dredger (namely, Zhuayang No. 101).
September 2008	We were first engaged by CWVEC and other customers and commenced capital and reclamation dredging services for the port expansion project in the Dalian Changxingdao Harbor Industrial Area.
March 2009	We were first engaged by the Qingdao Haifang Construction Bureau to provide capital and reclamation dredging services for projects located in the Qingdao National High-tech Industrial Development Area.
May 2010	Our Company was incorporated in the Cayman Islands and Power Wealth BVI was incorporated in BVI as an intermediate holding company of our Group.
June 2010	Xiangyu PRC was established in the PRC with Power Wealth HK as its sole equity-holder and Power Wealth BVI acquired the entire issued share capital of Power Wealth HK.
June 2010	Our Group entered into agreements to acquire two cutter suction dredgers (namely, Kaijin No. 1 and Kaijin No. 3).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- July 2010 We entered into a non-binding letter of intent to undertake an environmental protection dredging project in Donghu, Hubei Province. Since this letter of intent is not legally binding and is subject to the signing of a definitive contract, it may not proceed or generate any revenue. Subsequently in March 2011 we entered into a non-binding cooperation memorandum with a project owner of environmental protection dredging projects in Wuhan City for our participation in lake clean-up projects and in April 2011, we entered into a cooperation framework agreement relating to a trial project for silt removal and dehydration in Guangqiahu in Wuhan City.
- August 2010 We entered into a non-binding five-year framework agreement to provide capital dredging for a project in Yancheng City, Jiangsu Province and a non-binding letter of intent to provide reclamation dredging for a project in Dongying Harbor, Shandong Province, two major transportation development projects in China. Since this framework agreement and letter of intent are not legally binding and are subject to the signing of definitive contracts, these projects may not proceed or generate any revenue.
- April 2011 Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou entered into the contracts and agreements constituting the Contractual Arrangements and, as a result, the PRC Operational Entity is accounted for as a subsidiary of our Company.
- April 2011 Our Company acquired the entire issued share capital of Power Wealth BVI to become the ultimate holding company of our Group.
- May 2011 We entered into an agreement to provide environmental protection dredging services in Yancheng City, Jiangsu Province.

We also set out below the corporate history and major shareholding changes of the members of our Group (including the PRC Operational Entity):

Our Company

Our Company was incorporated in the Cayman Islands on May 31, 2010 as an exempted company with limited liability.

At the time of its incorporation, the authorized share capital of our Company was HK\$200,000 divided into 2,000,000 Shares having a par value of HK\$0.10 each. On May 31, 2010, one subscriber Share was transferred by its subscriber to Mr. Liu at nil consideration and an aggregate of 999,999 nil-paid Shares were allotted and issued by us to Mr. Liu.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On August 18, 2010, Mr. Liu transferred the entire issued share capital of our Company (being 1,000,000 nil-paid Shares) to Wangji Limited, a company wholly owned by Mr. Liu, in consideration of which one share having a par value of US\$1.00 in Wangji Limited was allotted and issued by Wangji Limited to Mr. Liu.

Our Company has become the ultimate holding company of our Group since our Company acquired from Wangji Limited on April 19, 2011 an aggregate of 20,000 shares having a par value of US\$1.00 each in the share capital of Power Wealth BVI, being its entire issued share capital all of which were held by Wangji Limited, in consideration of and in exchange for which our Company (i) allotted, issued and credited as fully paid, 99,000,000 Shares to Wangji Limited; and (ii) credited as fully paid at par an aggregate of 1,000,000 nil-paid Shares then held by Wangji Limited.

Mr. Dong has known Mr. Liu for over 10 years. In 2007, Mr. Dong procured the necessary funding for Mr. Liu to support our Group's development in the PRC dredging market. The funding was mainly provided by way of personal loans from business entities with which Mr. Dong was acquainted and which agreed to advance the relevant sums to Mr. Liu or the PRC Operational Entity on the recommendations of Mr. Dong. In consideration of Mr. Dong procuring the supply of funds to Mr. Liu to be used to pay up the registered capital of the PRC Operational Entity in 2007, Mr. Liu agreed to transfer 20.0% (on a fully diluted basis upon completion of the Global Offering without taking into account any Shares which may be sold upon the exercise of the Over-allotment Option) of his interest in his dredging business to Mr. Dong as a gift effective on July 1, 2007. On May 18, 2011, out of the 100,000,000 Shares then held by Wangji Limited, 26,666,667 Shares, representing approximately 26.7% of the then entire issued share capital of our Company, were transferred to Shen Wang Limited, a company wholly owned by Mr. Dong to honor Mr. Liu's undertaking given to Mr. Dong.

Other than the above arrangement with respect to the procurement of funds and transfer of Shares between Mr. Liu and Mr. Dong, there is no business and/or financial relationship between Mr. Liu and Mr. Dong. Since the Shares procured to be transferred by Mr. Liu to Shen Wang Limited (owned by Mr. Dong) are in the form of a gift, Mr. Liu and Mr. Dong will be treated as parties acting in concert (as defined under the Takeovers Code) with each other (and they agree to be so treated), and are to be considered as a group of controlling shareholders of our Company for the purpose of Rule 10.07 of the Listing Rules.

After the completion of transfer of the 26,666,667 Shares from Wangji Limited to Shen Wang Limited, our Company was owned approximately 73.3% by Wangji Limited and approximately 26.7% by Shen Wang Limited. It is contemplated that immediately upon Listing, on the assumption that 25.0% and approximately 14.4% of the entire issued shares of our Company as enlarged by the Shares being offered by our Company under the Global Offering (taking no account of the Offer Shares which may be transferred by the Selling Shareholder upon exercise of the Over-allotment Option and the Offer Shares which may be issued upon exercise of the options which may be granted under the Share Option Scheme) will be held by the public and the Pre-IPO Investors, respectively, (assuming that the Pre-IPO Warrants are exercised in full), the Shares to be held by Wangji Limited and Shen Wang Limited will represent approximately 40.64% and 20.00%, respectively, of the entire issued Shares of our Company.

For the purpose of the Listing, our Company has undergone further changes in its share capital, details of which are set out under the paragraph headed "Changes in share capital of our Company" in Appendix VII to this prospectus.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Power Wealth BVI

Power Wealth BVI was incorporated in BVI on May 17, 2010 with an authorized share capital of US\$50,000 divided into 50,000 shares having a par value of US\$1.00 each. Following the activation of Power Wealth BVI on June 18, 2010, one share was allotted and issued to Mr. Liu. On June 30, 2010, 9,999 new shares in the share capital of Power Wealth BVI were allotted and issued to Mr. Liu as the consideration of Power Wealth BVI acquiring from Mr. Liu the entire issued share capital of Power Wealth HK.

On August 18, 2010, Mr. Liu transferred the entire issued share capital of Power Wealth BVI (being 10,000 shares having a par value of US\$1.00 each) to Wangji Limited in consideration of which 99 shares having a par value of US\$1.00 in Wangji Limited were allotted and issued by Wangji Limited to Mr. Liu.

To facilitate completion of the payment of the registered capital of Xiangyu PRC and the payment of the purchase price for the acquisition of two dredgers and other corporate business expenses, Wangji Limited entered into the HJ Pre-IPO Investment Agreements, pursuant to which an aggregate initial principal amount under the HJ Pre-IPO Notes in the sum of HK\$230.0 million (less interest and expenses) was received by Power Wealth HK on behalf of Wangji Limited on September 8, 2010. Wangji Limited applied HK\$200.0 million of such proceeds for 10,000 shares having a par value of US\$1.00 each in Power Wealth BVI, which in turn injected such amount into our Group as capital. Power Wealth HK applied such amount mainly to pay up the registered capital of and as a shareholder's loan to Xiangyu PRC. Immediately following such allotment of 10,000 shares, Power Wealth BVI had 20,000 shares having a par value of US\$1.00 each in issue, all of which were owned by Wangji Limited.

On April 19, 2011, our Company acquired the entire issued capital of Power Wealth BVI (being 20,000 shares having a par value of US\$1.00 each) from Wangji Limited. Since then, Power Wealth BVI has become the intermediate holding company of our Group.

Power Wealth HK

Power Wealth HK was incorporated in Hong Kong as a limited liability company on July 3, 2002 with an authorized share capital of HK\$10,000 divided into 10,000 shares having a par value of HK\$1.00 each which was subsequently increased to HK\$100,000 divided into 100,000 shares having a par value of HK\$1.00 each. Since the commencement of the Track Record Period and up to June 30, 2010, Mr. Liu was the sole shareholder of Power Wealth HK holding its entire issued share capital (being 100,000 shares having a par value of HK\$1 each). On June 30, 2010, Power Wealth BVI acquired from Mr. Liu the entire issued share capital of Power Wealth HK, in consideration of and in exchange for which, Power Wealth BVI allotted and issued credited as fully paid, a total of 9,999 shares having a par value of US\$1.00 each to Mr. Liu. Since then, Power Wealth HK has become a wholly owned subsidiary of Power Wealth BVI.

Xiangyu PRC

On June 11, 2010, Xiangyu PRC was established as a wholly foreign-owned enterprise in the PRC with Power Wealth HK being its sole equity-holder. As at the date of its incorporation, the total investment amount and the registered capital of Xiangyu PRC were both US\$2,000,000.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Subsequently, the total investment and the registered capital of Xiangyu PRC were approved on July 14, 2010 to be increased to US\$29 million and US\$15 million respectively, and Power Wealth HK has remained as the sole registered equity-holder of Xiangyu PRC.

Certain shareholder's loans were on-lent by Power Wealth BVI to Power Wealth HK, a portion of the balance of which was paid in mid-September 2010 to contribute to the registered capital and shareholder's loan to Xiangyu PRC. Following such contribution, the entire registered capital of US\$15 million was fully paid up as of September 15, 2010. These amounts (*i.e.*, total investment and the registered capital) have remained the same up to the Latest Practicable Date.

PRC Operational Entity

On July 13, 2007, the PRC Operational Entity was established in the PRC as a joint stock limited company with an initial registered capital of RMB12 million divided into 12,000,000 shares having a par value of RMB1.00 each, which was fully paid by way of cash. Mr. Liu and Mr. Sun Nianjiang (“**Mr. Sun**”), an employee of our Group, were the registered shareholders of the PRC Operational Entity holding 11,400,000 shares (95.0%) and 600,000 shares (5.0%) respectively. Since the date of its incorporation and up to May 4, 2009 (being the date of the agreement for the transfer of the 600,000 shares held by Mr. Sun to Ms. Zhou), Mr. Sun held the said 600,000 shares of the PRC Operational Entity as trustee on Mr. Liu's behalf pursuant to the terms of a shareholding confirmation, dated July 12, 2010, between Mr. Liu and Mr. Sun. The said trust arrangement was effected due to the then minimum number of shareholders requirement (being two registered shareholders) of a joint stock limited company in the PRC. The trust was originally created by oral agreement. Mr. Liu intended and Mr. Sun agreed to reduce their oral agreement to writing in order to ensure that the parties' rights and obligations would be expressly and clearly protected and provided.

Since its establishment, the registered capital and equity interest of the PRC Operational Entity underwent the following changes:

On January 11, 2008, shareholders of the PRC Operational Entity approved the increase in its registered capital from RMB12,000,000 to RMB15,000,000 by way of additional capital injection of RMB3.0 million which was contributed by Mr. Liu in cash. Such increase was registered with the Administration for Industry and Commerce of Yancheng City, Jiangsu Province on January 14, 2008. Following such increase, Mr. Liu and Mr. Sun held 14,400,000 shares (96.0%) and 600,000 shares (4.0%) in the PRC Operational Entity, respectively.

On June 16, 2008, shareholders of the PRC Operational Entity approved the increase in its registered capital from RMB15.0 million to RMB39.3 million by way of additional capital injection of RMB24.3 million which was contributed by Mr. Liu by transferring the ownership of a dredger (namely, Zhuayang No. 101) to the PRC Operational Entity. Such increase was registered with the Administration for Industry and Commerce of Yancheng City, Jiangsu Province on July 3, 2008. Following such increase, Mr. Liu and Mr. Sun held 38,715,800 shares (98.47%) and 600,000 shares (1.53%) in the PRC Operational Entity, respectively. The amount of the said capital injection of RMB24.3 million by way of transfer of a dredger was determined with reference to the market value of the said dredger as evaluated by a registered assets valuer as set out in a valuation report which record date of valuation being May 18, 2008.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The grab dredger Zhuayang No. 101 was registered under the name of the PRC Operational Entity on October 12, 2007 and the related legal procedures to inject Zhuayang No.101 into the PRC Operational Entity in exchange for new shares of the PRC Operational Entity issued to Mr. Liu as a result of the increase in its registered capital were completed in July 2008. The PRC Operational Entity obtained its specialized grade 3 properties construction certificate on November 23, 2007, the specialized grade 2 properties construction certificate on December 29, 2010, and specialty contracting certificate for waterway construction on January 21, 2008. Our PRC Legal Advisers advised that the PRC Operational Entity has obtained all the necessary certificates, consents, permits and approvals to legally conduct its dredging business in the PRC.

Our Group obtained a compliance certificate from the Construction Bureau of Yancheng City dated September 1, 2010 which confirmed that the PRC Operational Entity has not violated any laws or regulations from the date of its incorporation to the issuing date of the compliance certificate.

On May 4, 2009, shareholders of the PRC Operational Entity approved the transfer of the 600,000 shares in the PRC Operational Entity held by Mr. Sun to Ms. Zhou, so that Mr. Liu may exert a more consolidated control over the trust arrangement through re-arranging the trust agreement from between himself and an employee of our Group to between himself and his wife. Such transfer was registered with the Administration for Industry and Commerce of Yancheng City, Jiangsu Province on July 16, 2009. Following such transfer, Mr. Liu and Ms. Zhou held 38,715,800 shares (98.47%) and 600,000 shares (1.53%) in the PRC Operational Entity, respectively. Since such transfer and up to the Latest Practicable Date, Ms. Zhou has been holding the said 600,000 shares of the PRC Operational Entity as trustee on Mr. Liu's behalf pursuant to the terms of a shareholding confirmation, dated July 12, 2010, between Mr. Liu and Ms. Zhou. The trust was originally created by oral agreement. Mr. Liu intended and Ms. Zhou agreed to memorialize their oral agreement to writing in order to ensure that the parties' rights and obligations would be expressly and clearly protected and provided for.

On February 21, 2011, the PRC Operational Entity was converted from a joint stock limited company into a limited liability company. The registered shareholdings of Mr. Liu and Ms. Zhou in the PRC Operational Entity remained the same, and Ms. Zhou continued to hold such equity interest in the PRC Operational Entity as the trustee of Mr. Liu.

We have been advised by our PRC Legal Advisers and it is the view of our PRC Legal Advisers that:

- (a) we have obtained from the relevant government authorities the registration required for the transfer of the equity interest in the registered capital of the PRC Operational Entity disclosed above;
- (b) the registered capital and the increase in the registered capital of the PRC Operational Entity comprising our Group were duly paid up within the required timeframe; and
- (c) given that the oral trust agreements and the shareholder confirmations fall within the category of civil relationships and do not violate any PRC laws or regulations, (i) the oral trust agreement and the shareholder confirmation between Mr. Sun and Mr. Liu under which Mr. Sun held the 600,000 shares of the PRC Operational Entity as trustee of Mr. Liu were validly and legally existing under PRC laws and constituted a valid and legally binding obligation of the parties thereto during their term and (ii) the oral trust agreement and the shareholder

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

confirmation between Ms. Zhou and Mr. Liu under which Ms. Zhou holds the 600,000 shares of the PRC Operational Entity as trustee of Mr. Liu are validly and legally existing under PRC laws and constitute a valid and legally binding obligation of the parties thereto.

REORGANIZATION

Prior to Listing, our Group underwent the Reorganization to rationalize our Group's structure, which involved the following steps:

- (a) on May 31, 2010, our Company was incorporated in the Cayman Islands as an exempted company under the Companies Law with an authorized share capital of HK\$200,000 divided into 2,000,000 Shares having a par value of HK\$0.10 each. On May 31, 2010, one subscriber Share having a par value of HK\$0.10 was transferred by its subscriber to Mr. Liu at nil consideration and an aggregate of 999,999 nil-paid Shares were allotted and issued by us to Mr. Liu;
- (b) on June 11, 2010, Xiangyu PRC was established as a wholly foreign-owned enterprise in the PRC with Power Wealth HK being its sole equity-holder. The total investment amount and the registered capital of Xiangyu PRC on its establishment were US\$2,000,000 and US\$2,000,000, respectively, and were subsequently approved to be increased to US\$29 million and US\$15 million, respectively, on July 14, 2010;
- (c) on May 17, 2010, Power Wealth BVI was incorporated in BVI as the intermediate holding company of our Group, and its authorized share capital was US\$50,000 divided into 50,000 shares having a par value of US\$1.00 each. On June 18, 2010, Power Wealth BVI allotted and issued one share to Mr. Liu;
- (d) on June 30, 2010, Power Wealth BVI, the intermediate holding company of our Group, acquired from Mr. Liu an aggregate of 100,000 shares having a par value of HK\$1.00 each in Power Wealth HK, representing its entire issued share capital, in consideration of and in exchange for which Power Wealth BVI allotted and issued, credited as fully paid, an aggregate of 9,999 new shares having a par value of US\$1.00 each in its share capital to Mr. Liu;
- (e) on August 18, 2010, (i) Mr. Liu transferred the entire issued share capital of our Company (being 1,000,000 nil-paid Shares) to Wangji Limited in consideration of which one share having a par value of US\$1.00 was allotted and issued by Wangji Limited to Mr. Liu and (ii) Mr. Liu transferred the entire issued share capital of Power Wealth BVI (being 10,000 shares having a par value of US\$1.00 each) to Wangji Limited in consideration of which 99 shares having a par value of US\$1.00 each were allotted and issued by Wangji Limited to Mr. Liu;
- (f) on September 18, 2010, Wangji Limited injected HK\$200.0 million to subscribe for 10,000 shares having a par value of US\$1.00 each in Power Wealth BVI. Immediately following such allotment of 10,000 shares, Power Wealth BVI had 20,000 shares having a par value of US\$1.00 each in issue, all of which were owned by Wangji Limited;

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (g) on April 19, 2011, all the agreements constituting the Contractual Arrangements were entered into between Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou (as the case may be); and
- (h) on April 19, 2011, our Company acquired from Wangji Limited an aggregate of 20,000 shares having a par value of US\$1.00 each in the share capital of Power Wealth BVI, being its entire issued share capital in consideration of and in exchange for which our Company (i) allotted and issued, credited as fully paid, 99,000,000 Shares to Wangji Limited; and (ii) credited as fully paid at par an aggregate of the 1,000,000 nil-paid Shares then held by Wangji Limited.

Upon completion of the Reorganization, our Company became the holding company of our Group.

Our PRC Legal Advisers advised that all requisite approvals, permits and licenses have been obtained for each stage of Reorganization within the PRC.

PRE-IPO INVESTMENTS

Pre-IPO Notes

By the HJ Pre-IPO Note Purchase Agreement dated as of September 7, 2010 (“**HJ Issuance Date**”) by and among Hong Jun, Mr. Liu and Wangji Limited, Hong Jun has agreed to advance to Wangji Limited a sum of HK\$230 million by way of issue and subscription of the HJ Pre-IPO Notes. The aggregate principal amount of the HJ Pre-IPO Notes (less an amount equal to HK\$8.9 million payable to Hong Jun as handling fee for its role as the original subscriber of the HJ Pre-IPO Notes (which in effect represents the aggregate interest on the principal amount of the HJ Pre-IPO Notes for the first six months from the HJ Issuance Date which full amount shall be released to Hong Jun on the first interest payment date (*i.e.*, March 7, 2011) subject to refund to Wangji Limited of a proportional amount thereof in case of early redemption of the HJ Pre-IPO Notes and is being held in an escrow account. The said amount of HK\$8.9 million was due on March 7, 2011 and was paid to Hong Jun in full) and certain amount of expenses to be borne by Wangji Limited) was received by Power Wealth HK on September 8, 2010 on behalf of Wangji Limited and was injected into our Group as capital on September 18, 2010.

Hong Jun is a wholly owned subsidiary of CCB International Asset Management Limited, or CCBIAM. CCBIAM, a company incorporated in Hong Kong, is a wholly owned subsidiary of CCB International (Holdings) Limited. The ultimate beneficial owner of CCBIAM is China Construction Bank Corporation, a company listed on the Main Board of the Stock Exchange (stock code: 939) and on the Shanghai Stock Exchange (stock code: 601939). CCBIAM has invested in a number of pre-IPO projects in the PRC and Hong Kong as well as Hong Kong listed companies, covering such sectors as healthcare, energy and resources, infrastructure consumer products, media and real estate. CCBIAM is an affiliate of the Sole Global Coordinator.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Pursuant to the AA Pre-IPO Note Purchase Agreement dated as of October 4, 2010 (“**AA Issuance Date**”) by and among Apex Ally, Mr. Liu and Wangji Limited, Apex Ally agreed to advance to Wangji Limited a sum of HK\$153 million by way of issue and subscription of the AA Pre-IPO Notes. The aggregate principal amount of the AA Pre-IPO Notes, less an amount equal to HK\$5.8 million payable to Apex Ally as handling fee (which in effect, represents the aggregate interest on the principal amount of the AA Pre-IPO Notes for the first six months from the AA Issuance Date which full amount shall be released to Apex Ally on the first interest payment date (*i.e.*, April 4, 2011) subject to refund to Wangji Limited of a proportional amount thereof in case of early redemption of the AA Pre-IPO Notes and is being held in an escrow account. The HK\$5.8 million handling fee was due on April 4, 2011 and was paid in full to Apex Ally.) and certain amount of expenses to be borne by Wangji Limited was received by Wangji Limited on October 4, 2010.

Apex Ally is a wholly owned subsidiary of ICBC International Investment Management Limited, being member of ICBC International Holdings Limited, which is wholly owned by Industrial and Commercial Bank of China Limited, an Independent Third Party and independent of the other Pre-IPO Investor.

The principal terms of the Pre-IPO Notes are set out below:

Holder of the Pre-IPO Notes and principal amount of Pre-IPO Notes:	(a) the HJ Pre-IPO Notes in the principal amount of HK\$230 million registered under the name of Hong Jun
	(b) the AA Pre-IPO Notes in the principal amount of HK\$153 million registered under the name of Apex Ally
Interest:	annual rate of 7 per cent above the Hong Kong Interbank Offer Rate for Hong Kong dollars payable semi-annually
Maturity date:	(a) for the HJ Pre-IPO Notes: the second anniversary of the HJ Issuance Date
	(b) for the AA Pre-IPO Notes: the second anniversary of the AA Issuance Date
Use of proceeds:	(a) for the HJ Pre-IPO Notes: for the purchase of two dredgers and other business corporate purposes
	(b) for the AA Pre-IPO Notes: for construction-related business of Wangji Limited and Mr. Liu

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Collateral:

- (a) for the HJ Pre-IPO Notes: (i) a personal guarantee provided by Mr. Liu; (ii) pledges over 60% of the issued share capital of each of Wangji Limited, our Company, Power Wealth BVI and Power Wealth HK; (iii) pledge over 60% of the registered capital of Xiangyu PRC; and (iv) a charge over the 30% interest held by Xiangyu PRC in each of the dredgers, namely, Kaijin No. 1 and Kaijin No. 3 (“**Pledged Dredgers**”)

A deed of discharge dated May 27, 2011 (“**HJ WFOE Discharge**”) was entered into between Power Wealth HK and Hong Jun. Pursuant thereto, Hong Jun agreed to discharge the pledge over 60% of the registered capital of Xiangyu PRC. Under PRC law, the discharge will become effective upon the HJ WFOE Discharge being registered with the relevant local office of the Administration for Industry and Commerce (“**AIC**”). As of the Latest Practicable Date, the HJ WFOE Discharge was in the process of being registered with the relevant office of AIC and is expected to be completed before Listing.

In consideration of Hong Jun agreeing to execute the HJ WFOE Discharge, Mr. Liu and Wangji Limited has each, by a letter of undertaking dated May 27, 2011, undertaken to Hong Jun that (i) if the Listing does not occur, or (ii) as soon as it becomes aware that the Listing will not occur for any reason whatsoever, on or before June 30, 2011 (or such later date as may be agreed by Hong Jun in writing), it will (and/or it will procure Power Wealth BVI to) among others, procure Power Wealth HK to effect, on a date no later than July 15, 2011 (or such later date as may be agreed by Hong Jun in writing), the re-charge and/or re-pledge to Hong Jun of the said 60% registered capital in Xiangyu PRC on substantially the same terms as the share pledge originally executed.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (b) for the AA Pre-IPO Notes: (i) a personal guarantee provided by Mr. Liu; (ii) pledges over 40% of the issued share capital of each of Wangji Limited, our Company, Power Wealth BVI and Power Wealth HK; (iii) pledge over 40% of the registered capital of Xiangyu PRC; and (iv) a charge over the 20% interest held by Xiangyu PRC in each of the Pledged Dredgers

A deed of discharge dated May 27, 2011 (“**AA WFOE Discharge**”) was entered into between Power Wealth HK and Apex Ally. Pursuant thereto, Apex Ally agreed to discharge the pledge over 40% of the registered capital of Xiangyu PRC. Under PRC law, the discharge will become effective upon the AA WFOE Discharge being registered with the relevant local office of the AIC. As the Latest Practicable Date, the AA WFOE Discharge was in the process of being registered with the relevant office of AIC and is expected to be completed before Listing.

In consideration of Apex Ally agreeing to execute the AA WFOE Discharge, Mr. Liu and Wangji Limited has each, by a letter of undertaking dated May 27, 2011, undertaken to Apex Ally that (i) if the Listing does not occur, or (ii) as soon as it becomes aware that the Listing will not occur for any reason whatsoever, on or before June 30, 2011 (or such later date as may be agreed by Apex Ally in writing), it will (and/or it will procure Power Wealth BVI to) among others, procure Power Wealth HK to effect, on a date no later than July 15, 2011 (or such later date as may be agreed by Apex Ally in writing), the re-charge and/or re-pledge to Apex Ally of the said 40% registered capital in Xiangyu PRC on substantially the same terms as the share pledge originally executed.

Redemption of
the Pre-IPO Notes:

- (i) on the respective maturity dates of the Pre-IPO Notes or upon the occurrence of a sale by Mr. Liu of all or substantially of his interests in Wangji Limited or our Group to a publicly-traded entity or the sale by Mr. Liu of any equity interests held by him in any member of our Group if immediately following such sale, Wangji Limited would hold less than 50% of the equity interests in our Group, Wangji Limited shall redeem the Pre-IPO Notes in whole at the outstanding principal amount thereof plus all accrued and unpaid interest

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (ii) immediately prior to the completion of the Global Offering (or completion of an initial public offering of the shares of a member of our Group in other internationally recognized stock exchange as stipulated in the relevant Pre-IPO Note Purchase Agreement) (and conditional upon such event shall become unconditional), Wangji Limited shall have the option to redeem the Pre-IPO Notes in whole at the outstanding principal amount thereof plus all accrued and unpaid interest

As at the Latest Practicable Date, the exchange rights attaching to all the HJ Pre-IPO Warrants and the AA Pre-IPO Warrants were exercised in full, the Exercise Price (as defined below) payable by each of the Pre-IPO Investors will be off-set against the loans constituted under the Pre-IPO Notes on a dollar-to-dollar basis. In such connection, the entire loans constituted under the Pre-IPO Notes owing by Wangji Limited to Pre-IPO Investors under the Pre-IPO Note Purchase Agreements will be discharged in full before the Listing.

- (iii) upon the occurrence of either of (a) an event of default as stipulated in the terms and conditions of the Pre-IPO Notes; (b) a change of control of a member of our Group (*i.e.*, which involves a change of more than 50% of the voting rights or the change of the rights to appoint and/or remove all or the majority of the members of the board of directors); or (c) a material adverse change as stipulated in the terms and conditions of the Pre-IPO Notes, the Pre-IPO Investors (being the holders of the Pre-IPO Notes) shall have option to require Wangji Limited to redeem part or all of the Pre-IPO Notes at the principal amount of the Pre-IPO Notes to be redeemed plus a redemption premium (exclusive of any interest previously paid or payable under the Pre-IPO Notes) representing an internal rate of return equal to 25% per annum on the principal amount of the Pre-IPO Notes to be redeemed

Transferability:

The Pre-IPO Notes are generally transferrable in whole or in part, and the rights and obligations of Wangji Limited and the holder(s) of the Pre-IPO Notes shall be binding upon and benefit the transferee(s) of the parties

Pursuant to the Pre-IPO Note Purchase Agreements, the Pre-IPO Investors were granted certain rights with respect to: (i) board representation in our Company; (ii) access to due diligence materials and information of our Group and (iii) refusal to certain acts proposed to be performed by our Group, including but not limited to amendment to constitutional documents, change of dividend policy, and other matters and affairs related to the business operation and management of our Group. All the above rights shall be discontinued upon Listing.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Mr. Liu's equity interest in the PRC Operational Entity was not pledged to the Pre-IPO Investors for the following reasons: (i) the loans were advanced to Wangji Limited and the equity interest of Wangji Limited and its subsidiaries at the time of entering into the Pre-IPO Investment Agreements, being our Company, Power Wealth BVI, Power Wealth HK and Xiangyu PRC, were pledged to the Pre-IPO Investors as collateral at their request. The PRC Operational Entity was not a subsidiary of Wangji Limited at the material time; and (ii) personal guarantee was provided by Mr. Liu to the Pre-IPO Investors, whose personal properties included but were not limited to the equity interest in the PRC Operational Entity.

The investment cost per Share was HK\$3.33, indicating a discount of approximately 9% to HK\$3.63, being the mid-point of the indicative Offer Price range.

Pre-IPO Warrants

By the HJ Pre-IPO Warrant Agreement dated as of September 7, 2010 and made between Wangji Limited and Hong Jun, Wangji Limited has agreed to issue the HJ Pre-IPO Warrants (whose terms are summarized below) to Hong Jun, pursuant to which Hong Jun is entitled to purchase from Wangji Limited, Shares which represent about 11.50% of our Company's Shares in issue on the Listing Date (without taking account any Shares issued to the public or professional, institutional or other investors under the Global Offering).

Pursuant to the AA Pre-IPO Warrant Agreement dated as of October 4, 2010 between Wangji Limited and Apex Ally, Wangji Limited has agreed to issue the AA Pre-IPO Warrants (whose terms are summarized below) to Apex Ally, pursuant to which Apex Ally is entitled to purchase from Wangji Limited, Shares which represent about 7.65% of our Company's Shares in issue on the Listing Date (without taking account any Shares issued to the public or professional, institutional or other investors under the Global Offering).

The principal terms of the Pre-IPO Warrants are set out below:

- | | |
|--|---|
| Holder of the Pre-IPO Warrants and exercise price (“ Exercise Price ”): | (a) the HJ Pre-IPO Warrants in the aggregate exercise price of HK\$230 million registered under the name of Hong Jun |
| | (b) the AA Pre-IPO Warrants in the aggregate exercise price of HK\$153 million registered under the name of Apex Ally |
| Target coverage (“ Target Coverage ”): | (a) for HJ Pre-IPO Warrants: rights to purchase up to an aggregate of Shares representing approximately 11.50% of our Company's Shares in issue on the Listing Date (without taking into account any Shares issued to the public or professional, institutional or other investors under the Global Offering) |

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (b) for AA Pre-IPO Warrants: rights to purchase up to an aggregate of Shares representing approximately 7.65% of our Company's Shares in issue on the Listing Date (without taking into account any Shares issued to the public or professional, institutional or other investors under the Global Offering)
- Exercise period (“**Exercise Period**”):
- (a) for the HJ Pre-IPO Warrants: commencing on the issuance date of the HJ Pre-IPO Warrants (*i.e.*, September 7, 2010) and expiring on the earlier of the date of the Exit (as defined below) or the third anniversary of the issuance date of the HJ Pre-IPO Warrants
- (b) for the AA Pre-IPO Warrants: commencing on the issuance date of the AA Pre-IPO Warrants (*i.e.*, October 4, 2010) and expiring on the earlier of the date of the Exit or the third anniversary of the issuance date of the AA Pre-IPO Warrants
- Optional exchange (“**Optional Exchange**”):
- upon or prior to the occurrence of the Mandatory Exchange (as defined below), the holders of the Pre-IPO Warrants shall have the option to receive from Wangji Limited, for an amount equal to the relevant Exercise Price, such number of fully-paid shares (“**Warrant Shares**”) of our Company or other member of our Group as represent the Target Coverage
- Mandatory exchange (“**Mandatory Exchange**”):
- on the date immediately prior to an Exit (and conditional upon such event shall become unconditional in all respects), (a) the Warrant Shares previously delivered to the holders of the Pre-IPO Warrants (upon the exercise by such holders the Optional Exchange) shall be automatically exchanged into Shares, and (b) any unexercised Pre-IPO Warrants (if any) shall be cancelled

As at the Latest Practicable Date, the exchange rights attaching to all the HJ Pre-IPO Warrants and the AA Pre-IPO Warrants were exercised in full, the Exercise Prices payable by the Pre-IPO Investors will off-set on a dollar-to-dollar basis against the loans constituted under Pre-IPO Notes, thereby the outstanding amount of the loans constituted under the Pre-IPO Notes will be discharged in full before the Listing.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Settlement of the Pre-IPO Warrants:	at the holders of the Pre-IPO Warrants' election, all or a portion of the Exercise Price may be paid in cash, through the cancellation of all or a portion of the outstanding principal amount of the Pre-IPO Notes held by the relevant holder and/or via a set-off against the Performance Compensation (as defined below) in respect of the profit shortfall (where applicable) payable by Wangji Limited on the applicable settlement date
Guarantee:	personal guarantee provided by Mr. Liu
Tag-along right:	during the relevant Exercise Period, the holder of the Pre-IPO Warrants shall have the right to participate in a tag-along sale (<i>i.e.</i> , the sale by Mr. Liu of any equity interests held by him in any member of our Group if immediately following such sale, Wangji Limited would hold less than 50% of the equity interests in our Group) on a pro rata basis
Lock-up:	in the event that each of Wangji Limited, Mr. Liu and Mr. Dong (or his investment vehicle) is subject to restrictions on his/its trading of the Shares for a period of not less than six months from the Listing Date, the holders of the Pre-IPO Warrants undertake not to trade any Warrant Shares at any time during the period of six months from the Listing Date
Transferability:	the Pre-IPO Warrants and Warrant Shares (subject to the lock-up under the Pre-IPO Warrant Agreements) are generally transferrable in whole or in part, the rights and obligations of Wangji Limited and the holder(s) of the Pre-IPO Warrants shall be binding upon and benefit the transferee(s) of the parties

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Cash collection rights under the Pre-IPO Warrant Agreements:

(i) *Performance compensation (“Performance Compensation”)*

Pursuant to the Pre-IPO Warrant Agreements, if there are any profit shortfall and/or any valuation shortfall, the holders of the Pre-IPO Warrants shall be entitled to collect from Wangji Limited an amount of cash compensation to be calculated as follows:

- (i) **Profit shortfalls.** It is expected that the consolidated net profit of our Group for the year ending December 31, 2011 (“**Actual Profit**”) will not be less than RMB300 million (being an agreed amount between parties of net profits of our Group for the purpose of calculation of the Performance Compensation, but not a profit forecast). In the event of a profit shortfall, Wangji Limited shall pay an aggregate amount equal to the following:

the relevant amount attributable to each relevant Pre-IPO Investor is as follows:

Hong Jun: HK\$230,000,000

Apex Ally: HK\$153,000,000

$$\frac{(\text{RMB}300,000,000 - \text{Actual Profit})}{\text{RMB}300,000,000} \times \text{relevant amount for the relevant Pre-IPO Investor}$$

- (ii) **Valuation shortfalls.** It is expected at the time of entering into the Pre-IPO Investment Agreements that the Actual Valuation (as defined below) of our Group will not be less than HK\$2,600 million (if the Exit is consummated on or before the first anniversary of the respective issuance dates of the Pre-IPO Warrants) or not less than HK\$3,500 million (if the Exit is consummated after the first anniversary of the respective issuance dates of the Pre-IPO Warrants). In the event of a valuation shortfall, Wangji Limited shall pay, in addition to any amounts that it may be obligated to pay under item (i) above, an aggregate amount equal to either (but not both) of the following:

the relevant amount attributable to each of the Pre-IPO Investors is as follows:

Hong Jun: HK\$230,000,000

Apex Ally: HK\$153,000,000

- (1) if the Exit is consummated on or before the first anniversary of the respective issuance dates of the Pre-IPO Warrants:

$$\frac{(\text{HK}\$2,600,000,000 - \text{Actual Valuation})}{\text{HK}\$2,600,000,000} \times \text{relevant amount for the relevant Pre-IPO Investor}$$

or

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (2) if the Exit is consummated after the first anniversary of the respective issuance dates of the Pre-IPO Warrants and on or before the second anniversary of the respective issuance dates of the Pre-IPO Warrants;

$$\frac{(\text{HK\$}3,500,000,000 - \text{Actual Valuation})}{\text{HK\$}3,500,000,000} \times \text{relevant amount for the relevant Pre-IPO Investor}$$

For the purpose of the Pre-IPO Warrant Agreements;

“**Actual Valuation**” means the valuation of our Group calculated as follows: (x) in the case of an Exit in the form of an initial public offering of a member of our Group, the valuation of our Group shall equal the multiple of (1) the total number of shares of the relevant member of our Group that are issued and outstanding on a Fully-diluted Basis immediately prior to the Exit (and for the avoidance of doubt, such number shall not include any shares issuable by the relevant member of our Group in the Exit but shall include all shares issuable by the relevant member of our Group in any free distribution or bonus issue to all of its shareholders or any subdivision of shares immediately prior to the Exit) and (2) the Current Market Price per Warrant Share; and (y) in all other cases, the valuation of our Group shall equal the fair market value of the consideration receivable for all of the equity interests in our Group in the Exit, on the assumption that the fair market value of any publicly traded securities that form all or part of the consideration shall be computed based on their Current Market Price, whether or not they are Warrant Shares.

“**Current Market Price**” in respect of the Warrant Shares, means the arithmetic average of the closing sales price of the Warrant Shares for the 30 consecutive trading days beginning on the trading day that begins immediately after the Mandatory Exchange (or if the holders of the Pre-IPO Warrants are subject to a lock-up period, on the trading day that begins immediately after the expiration of such lock-up period).

“**Exit**” means the earliest of the following to occur: (i) the initial public offering of the shares of a member of our Group (whether established on or before the relevant issuance date of the Pre-IPO Warrants) and the listing of its shares on the main board of the Stock Exchange (or other internationally recognized stock exchange as stipulated in the relevant Pre-IPO Warrant Agreement) or (ii) the sale by Mr. Liu of all or substantially of his interests in Wangji Limited or our Group to a publicly traded entity or (iii) the sale by Mr. Liu of any equity interests held by him in any member of our Group if immediately following such sale Wangji Limited would hold less than 50% of the equity interests in our Group.

“**Fully-diluted Basis**” is calculated based on the assumption that all options, warrants (excluding the Pre-IPO Warrants) or other convertible securities or instruments or other rights to acquire the shares of our Company (or other member of our Group which is to be listed) or any other existing or future classes of capital stock have been exercised or converted, as applicable, in full, regardless of whether any such options (but excluding any option granted under any share option scheme adopted by our Company (or other

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

member of our Group which is to be listed) prior to the respective issuance dates of the Pre-IPO Warrants), warrants, convertible securities or instruments or other rights are then vested or exercisable or convertible in accordance with their terms.

(ii) *Compensation for delay in Global Offering*

It is expected that the Exit will occur on or prior to the second anniversary of the respective issuance dates of the Pre-IPO Warrants. If there is any delay in the timetable, the holders of the Pre-IPO Warrants shall be entitled to collect from Wangji Limited an amount of cash that will represent an internal rate of return equal to 25% per annum on the Exercise Price for all of the Pre-IPO Warrants registered under their respective names (regardless of whether any exchange right has been exercised), exclusive of any interest previously paid and interest to be paid by Wangji Limited in accordance with the terms of the Pre-IPO Notes.

(iii) *Default compensation*

Upon the occurrence of a default in the performance of any of the key warrant obligations as stipulated in the Pre-IPO Warrant Agreements, the holders of the Pre-IPO Warrants shall be entitled to collect from Wangji Limited an aggregate amount of cash that will represent an internal rate of return equal to 25% per annum on the Exercise Price for the Pre-IPO Warrants registered under their respective names in which the exchange right has not been exercised, exclusive of any interest previously paid and interest to be paid by Wangji Limited in accordance with the terms of the Pre-IPO Notes.

Pursuant to the Pre-IPO Warrant Agreements, the Exercise Period of Pre-IPO Warrants shall expire on the earlier of the date of the Exit or the third anniversary of the respective issuance date of the Pre-IPO Warrants. Further, where the exchange rights attaching to the Pre-IPO Warrants have been exercised, on the date immediately prior to an Exit, the Warrants Shares shall be automatically exchanged into the Shares of our Company and any unexercised Pre-IPO Warrants (if any) shall be cancelled. Accordingly, as all Warrants Shares will be automatically exchanged into Shares immediately prior to Listing and no unexercised Pre-IPO Warrants shall subsist on or after Listing, the Pre-IPO Warrant Agreements and the terms thereof (including those special rights granted to the Pre-IPO Investors except the Performance Compensation in relation to profit shortfalls and/or valuation shortfalls) shall cease to be effective and be discontinued upon Listing.

It is a term of the Pre-IPO Investment Agreements that the collateral in relation to all the shares or registered capital (as the case may be) of our Company, Power Wealth BVI, Power Wealth HK and Xiangyu PRC and the 50% equity interest in the Pledged Dredgers owned by Xiangyu PRC shall be released on the Listing Date. The collateral over the equity interest in Wangji Limited shall be released upon the entire loans constituted under the Pre-IPO Notes owing by Wangji Limited to Pre-IPO Investors under the Pre-IPO Note Purchase Agreements being discharged in full. The personal guarantee provided by Mr. Liu shall be released upon all obligations (including but not limited to the payment of the Performance Compensation) to be performed on the part of Mr. Liu under the Pre-IPO Investment Agreements being performed and discharged in full.

Subject to and immediately before the Listing, all of the loans evidenced by the Pre-IPO Notes and owed by Wangji Limited to the Pre-IPO Investors under the Pre-IPO Note Purchase Agreements have been agreed to be repaid in full, the collateral over the equity interest in Wangji Limited and each

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

member of our Group as well as the Pledged Dredgers has been agreed to be released in full and the personal guarantee provided by Mr. Liu for performance of his obligations under the Pre-IPO Note Purchase Agreements has been agreed to be discharged and released in full. The personal guarantee of Mr. Liu and the Shares held by Mr. Liu in Wangji will be released only upon the performance in full and subsequent discharge of all obligations to be performed by Mr. Liu under the Pre-IPO Warrant Agreements (including but not limited to the payment of the Performance Compensation).

On June 1, 2011, we were informed by Wangji Limited that each of Hong Jun and Apex Ally has in accordance with the terms of the Pre-IPO Warrant Agreements issued an irrevocable notice to Wangji Limited, in effect requiring Wangji Limited to transfer to each of Hong Jun and Apex Ally 69.0 million Shares and 45.9 million Shares, respectively, of our Company (which will represent approximately 8.63% and 5.74% of the entire issued share capital of our Company immediately upon completion of the Global Offering, taking no account of the Offer Shares which may be issued upon exercise of the options which may be granted under the Share Option Scheme and on the assumption that 25% of the entire issued share capital of our Company immediately upon completion of the Global Offering will be held by the public). Since the Exercise Price payable by each of the Pre-IPO Investors has been agreed to be off-set on a dollar-to-dollar basis against the loans evidenced by the Pre-IPO Notes, the outstanding amount of the loans evidenced by the Pre-IPO Notes has been discharged in full. Each of such transfers will take place on the Listing Date.

On October 22, 2010, Hong Jun transferred (i) HJ Pre-IPO Notes in the principal amount of HK\$40 million and (ii) HJ Pre-IPO Warrants of aggregate exercise price of HK\$40 million to Dornbirn Inc. (an Independent Third Party and independent of each of the other Pre-IPO Investors) at a transfer price of HK\$40 million. Following discussions between Hong Jun and Dornbirn Inc., it was agreed that the above said transfers would be unwound by way of Hong Jun's purchase from Dornbirn Inc. on February 25, 2011 of all such Pre-IPO Notes and Pre-IPO Warrants then held by Dornbirn Inc. at a transfer price of HK\$40 million. No other agreement, whether written or otherwise, has been entered into between Hong Jun, Wangji Limited and/or any members of our Group, on the one hand, and Dornbirn Inc., on the other, in relation to the issuance and subscription of the Pre-IPO Notes and Pre-IPO Warrants by Dornbirn Inc. and the above transfer from Dornbirn Inc. to Hong Jun.

As a result of the above transactions and up to the Latest Practicable Date, (i) Hong Jun remained the holder of the HJ Pre-IPO Notes of aggregate principal amount of HK\$230 million and HJ Pre-IPO Warrants with an aggregate exercise price of HK\$230 million and (ii) Apex Ally remained the holder of the AA Pre-IPO Notes of aggregate principal amount of HK\$153 million and AA Pre-IPO Warrants with an aggregate exercise price of HK\$153 million.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Assuming that the above exercise of the Pre-IPO Warrants proceeds to completion, the shareholdings in our Company on the Listing Date (immediately after such completion and assuming that the Over-allotment Option and any options that may be granted under the Share Option Scheme are not exercised at all and without taking account of any arrangement effected pursuant to the Stock Borrowing Agreement) is set out below:

<u>Name of Shareholders</u>	<u>No. of Shares held as at the Latest Practicable Date</u>	<u>Shareholding as at the Latest Practicable Date (%)</u>	<u>No. of Shares held immediately after the completion of the Global Offering and upon exercise of the Pre-IPO Warrants in full</u>	<u>Shareholding immediately after the completion of the Global Offering and upon exercise of the Pre-IPO Warrants in full (%)</u>	<u>Remarks</u>
Wangji Limited	73,333,333	73.30%	325,100,000	40.64%	Solely owned by Mr. Liu
Shen Wang Limited	26,666,667	26.70%	160,000,000	20.00%	Solely owned by Mr. Dong; subject to Stock Borrowing Agreement and the Over-allotment Option
Public Shareholders:					
The Pre-IPO Investors:					
(a) Hong Jun	—	—	69,000,000	8.63% ⁽¹⁾	
(b) Apex Ally	—	—	45,900,000	5.74% ⁽¹⁾	
Other public Shareholders	—	—	200,000,000	25.00%	
Total:	<u>100,000,000</u>	<u>100.0%</u>	<u>800,000,000</u>	<u>100.0%</u>	

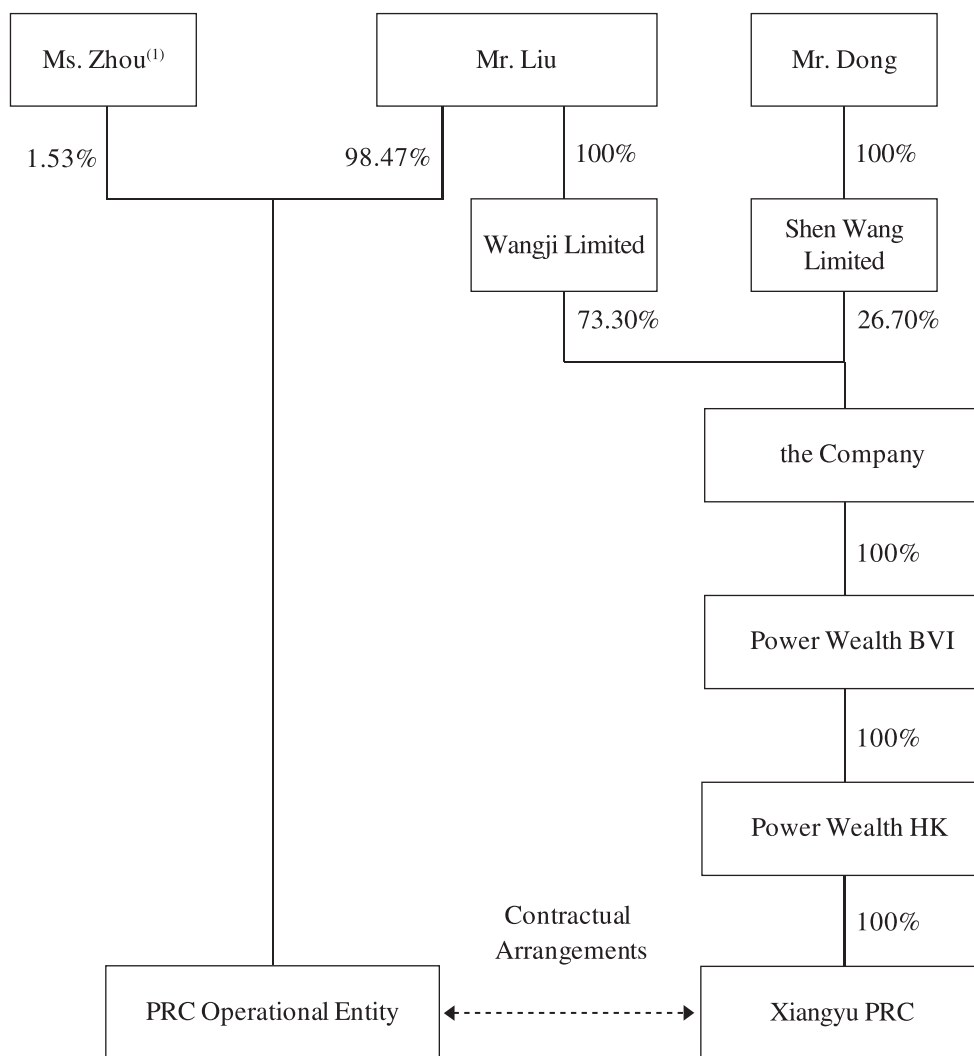
Note:

- (1) Subject to the terms of the Pre-IPO Warrant Agreements, the Shares held by the Pre-IPO Investors are subject to lock-up of six months from the Listing Date.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

GROUP STRUCTURE

The corporate structure of the members of our Group as at the Latest Practicable Date immediately after completion of the Reorganization but prior to the Capitalization Issue and the Global Offering is set out below:

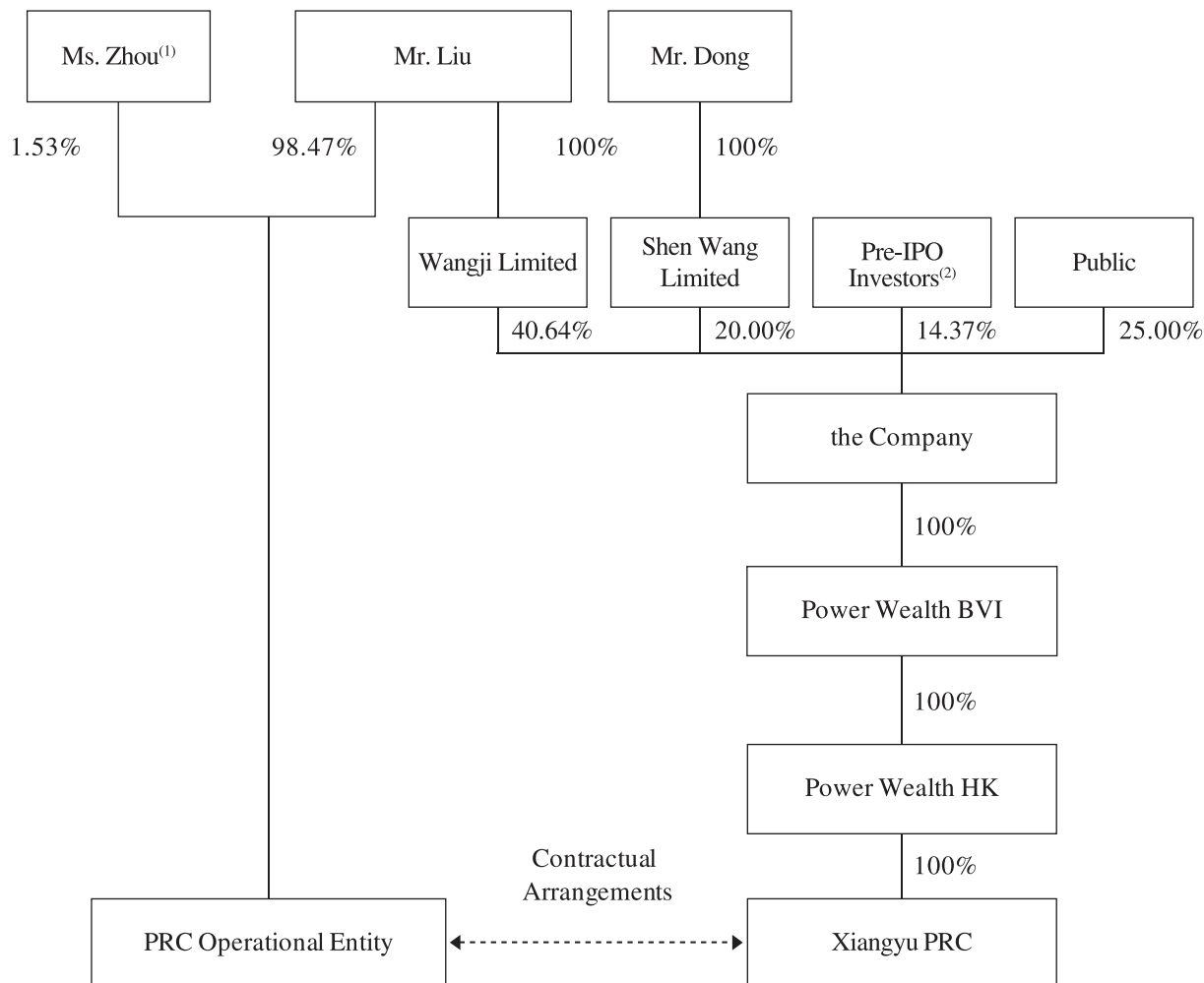


Note:

(1) Ms. Zhou holds the 1.53% equity interest in the PRC Operational Entity as trustee on behalf of Mr. Liu.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The corporate structure of the members of our Group immediately following completion of the Reorganization, the completion of the exercise of the Pre-IPO Warrants in full, the Capitalization Issue and the Global Offering (assuming the Over-allotment Option and any options that may be granted under the Share Option Scheme are not exercised at all) is set out below:



Notes:

- (1) Ms. Zhou holds the 1.53% equity interest in the PRC Operational Entity as trustee on behalf of Mr. Liu.
- (2) Hong Jun and Apex Ally will hold approximately 8.63% and 5.74% of the total issued share capital of our Company respectively immediately upon completion of the Global Offering, taking no account of the Offer Shares which may be issued upon exercise of the options which may be granted under the Share Option Scheme.

OVERVIEW

We are the largest privately owned dredging company in China based on dredging volume in 2010, with market shares of 15.5% among privately owned dredging companies and 2.4% among all dredging companies in the PRC in 2010, according to the Frost & Sullivan Report. We are engaged in providing capital dredging, reclamation dredging, maintenance dredging and environmental protection dredging services. In addition, we provide dredging-related construction services, which include small-scale land reclamation construction, temporary road construction and soil compaction.

We began providing dredging services in the PRC in July 2007 and have achieved significant growth in recent years. We believe that we are well positioned to capture attractive opportunities in the fast-growing PRC dredging industry. The PRC dredging market has grown from 438 million cubic meters in total dredging volume in 2006 to 1,311 million cubic meters in 2010, representing a CAGR of 31.5%, according to the Frost & Sullivan Report. According to the same report, the existing capacity of qualified contractors in the PRC was almost fully utilized by the end of 2010, which resulted in a shortage of dredging capacity in the PRC. See “Industry — Overview of the PRC Dredging Market — Market Overview.” While China’s dredging market has historically been dominated by state-owned enterprises, we believe that the PRC dredging market will grow and that capacity constraints will provide significant growth opportunities for privately owned dredging companies like us. Privately owned dredging companies, taken together, accounted for an estimated 15.7% of the total dredging volume in China in 2010, according to the Frost & Sullivan Report. Our annual output from dredging and related services grew from 11.0 million cubic meters in 2008 to 29.9 million cubic meters in 2009 and 32.0 million cubic meters in 2010. Demand for dredging services in China is expected to continue to increase because the PRC government is actively promoting large-scale infrastructure construction for transportation in response to the development of China’s economy. According to the Frost & Sullivan Report, the PRC dredging market is expected to grow at a CAGR of 27.1% from 2011 to 2015 in terms of dredging volume. In particular, the PRC maintenance and environmental protection dredging markets are forecasted to grow at CAGRs of 37.0% and 43.5%, respectively, during the same period in terms of dredging volume, according to the Frost & Sullivan Report.

Our two largest customers in terms of revenues during the Track Record Period, TDC Port and CWWEC, are subsidiaries of, respectively, (i) CCCC, the largest port design and construction company in China, and (ii) the Changjiang Waterway Bureau of the Ministry of Transport of the PRC. TDC Port and CWWEC have been our customers since 2007 and 2008, respectively. These customers have engaged us to undertake dredging work for projects in the Caofeidian Industrial Area, Dalian Changxingdao Harbor, Jingtang Harbor and Tianjin Port. These major projects, which last for years, have not only enhanced our reputation, but have also supported our rapid growth. We have also successfully developed these customer relationships into important strategic partnerships for securing long-term business, as described in “Business — Customers — Strategic Partnerships”. In January 2008 and May 2010, respectively, we entered into strategic partnership agreements with TDC Port and CWWEC, which we believe enhance our ability to secure new dredging projects and sustain the growth of our business. We have maintained relationships with our top five customers in 2010 for an average of over two years.

BUSINESS

We are led by a project management team with an average of approximately 20 years of experience in the PRC dredging industry. Our extensive project management experience and strong technical team of professional experts enable us to engage in capital, maintenance, reclamation and environmental protection dredging work. We believe that our ability to provide a full line of high quality dredging services enables us to capture attractive opportunities in the fast-growing PRC dredging market.

We achieve efficiency and cost savings by using a flexible operation model, employing an experienced project management team and implementing preventive maintenance practices. We employ three modes of operation. We provide dredging services ourselves by using our own dredgers and employing dredgers that we charter from third parties, depending on our production capacity and the availability of dredgers. In addition, we engage other dredging companies through subcontracting arrangements based on the workload or the timeframe of a particular project. Both chartering and subcontracting allow us to take on large projects in a short time frame without undertaking significant capital investment. We may alter our mode of operation after projects are underway, taking into consideration a variety of factors, such as fluctuations in the price of oil or spare parts, chartering costs, wages of crew members and our dredging capacity. This flexible operation model enables us to take on more projects, enhance dredger working efficiency rates and increase profits.

We believe that our flexible operation model, fleet of relatively young dredgers, preventative maintenance practices and extensive project management experience also allow us to achieve higher cost savings and profitability than our competitors. We achieved an average dredger working efficiency rate of approximately 83% in 2010, which was higher than the industry average of 70% in China, according to the Frost & Sullivan Report. We achieved a gross profit margin of 46.0%, 35.7% and 45.4% in 2008, 2009 and 2010, respectively. In addition, we intend to continue to make significant investments to expand the scale and scope of our dredging capacity in order to reduce our reliance on subcontractors. While subcontracting has been an important part of our flexible operation model, we believe that maintaining a relatively low proportion of subcontracting can support higher gross profit margins. Further, we emphasize preventative maintenance to minimize downtime, extend vessel life and reduce replacement capital expenditure requirements.

Since most contracts that our customers subcontract to us relate to long-term, large-scale projects, our customers typically divide the work into projects covering different phases and offer individual contracts for each phase. Therefore, in order to engage in these large-scale projects, we generally enter into multiple contracts with a limited number of customers. In the years ended December 31, 2008, 2009 and 2010, our largest five customers accounted for 97.3%, 96.9% and 99.3%, respectively, of our total revenues. During the same periods, our largest customer accounted for 49.7%, 54.1% and 51.7%, respectively, of our total revenues. Most of our customers are also our competitors. Substantially all of our contracts were subcontracted from our major customers during the Track Record Period. Since the large-scale projects which we have primarily worked on have had strict dredging contractor qualification requirements, including prior experience, financial conditions, certifications and availability of personnel, fleet and equipment, some of which we could not meet on our own, in the past we have not typically bid directly for contracts from project owners. However, we believe that we have developed close relationships with our customers and that they cannot easily replace us with other subcontractors.

BUSINESS

During the Track Record Period, we rapidly expanded our customer base to build a strong pipeline of new business and developed strategic partnerships with our major customers, which we attribute to the high quality of our work and our strong reputation. While our major customers are typically not the project owners of the relevant projects, we have expanded our customer base, as described further in “Business — Our Dredging Contracts — Future Prospects — Non-binding Letters of Intent and Framework Agreement” and “— Customers — New Customers”, and we believe that continuing to expand our customer base will help us to reduce our reliance on a limited number of customers. In addition, the expansion of our dredging capacity and the improvement of our financial position have enabled us to source more contracts directly from project owners. For example, in August 2010, we entered into a non-binding five-year framework agreement to provide capital dredging for a project in Yancheng City, Jiangsu Province and a non-binding letter of intent to provide reclamation dredging for a project in Dongying Harbor, Shandong Province. Since the framework agreement and letter of intent are not legally binding and are subject to the signing of definitive contracts, these projects may not proceed or generate any revenue. However, the projects in Yancheng City and Dongying Harbor are major transportation development projects in China, and we expect to provide dredging services directly to the owners of these projects rather than acting as a subcontractor. In addition, we were engaged in recent months by contractors of project owners for new projects, including projects in Yingkou Harbor, Liaoning Province and Tianjin Port in Tianjin.

In addition, we plan to further expand and diversify our service offerings by building up our environmental protection dredging business. We entered into a non-binding letter of intent, a non-binding cooperation memorandum and a framework agreement to undertake environmental protection dredging projects for lakes in Wuhan City, Hubei Province in July 2010, March 2011 and April 2011, respectively all of which are subject to the signing of definitive contracts with the relevant customers and the successful commencement of the relevant projects and therefore may not proceed or generate any revenue. In addition, in May 2011, we entered into an agreement with the Yandu Management Company in respect of an environmental protection dredging project in Yandu District of Yancheng City, Jiangsu Province.

Growth in demand for our dredging services and expansion of our capacity contributed to significant increases in our revenue and profits during the Track Record Period. For the years ended December 31, 2008, 2009 and 2010, our revenue was RMB133.3 million, RMB346.5 million and RMB374.9 million, respectively. Our profit and total comprehensive income for the year increased from RMB45.7 million in 2008, to RMB88.8 million in 2009, and to RMB95.0 million in 2010.

OUR STRENGTHS

The following principal competitive strengths have driven our revenue growth and distinguish us from our competitors:

We are the largest privately owned dredging company in the PRC based on dredging volume in 2010 and are well-positioned to capture attractive opportunities in the fast-growing PRC dredging industry.

We are the largest privately owned dredging company in the PRC based on dredging volume in 2010. According to the Frost & Sullivan Report, among the privately owned dredging companies in China, we had a market share of approximately 15.5% in 2010 based on dredging volume. According to the same report, we also had the largest dredging capacity among privately

BUSINESS

owned dredging companies in China in 2010. Our annual dredging output from dredging services increased from 11.0 million cubic meters in 2008, to 29.9 million cubic meters in 2009, and to 32.0 million cubic meters in 2010. For the years ended December 31, 2008, 2009 and 2010, our revenue was RMB133.3 million, RMB346.5 million and RMB374.9 million, respectively.

We operate in a fast-growing industry. In terms of dredging volume, the PRC dredging market has grown steadily, at a CAGR of 31.5% from 2006 to 2010, according to the Frost & Sullivan Report. During this period, infrastructure construction and transportation activities in the PRC increased significantly. The PRC government planned to allocate RMB3.8 trillion for transportation projects, including ports and waterways, under its eleventh five year plan, a development plan covering the period of 2005 through 2010 (the “**Eleventh Five Year Plan**”). Demand for dredging services is expected to continue to increase since the PRC government is actively promoting large-scale infrastructure construction for transportation in response to the development of China’s economy. According to the Frost & Sullivan Report, the PRC dredging industry is expected to grow at a CAGR of 27.1% from 2011 to 2015 in terms of dredging volume.

We believe that increased spending on transportation infrastructure projects in the PRC will provide us with significant business opportunities and growth prospects. We also believe that our successful track record, leading market position and established reputation position us well to capture attractive opportunities in this fast-growing market.

We have cultivated strong client relationships and have a strong project pipeline that includes large-scale projects with prestigious clientele.

We believe that our strong reputation for quality has enabled us to establish and maintain close relationships with leading companies in the PRC dredging industry. Our two largest customers in terms of revenue during the Track Record Period were TDC Port and CWWEC. TDC Port is a subsidiary of CCCC, the largest port design and construction company in China. CWWEC is a state-owned enterprise under the Changjiang Waterway Bureau of the Ministry of Transport of the PRC, which is the project owner of various government contracts. We have also successfully cultivated certain key customer relationships into important strategic partnerships. We have entered into strategic partnership agreements with TDC Port and CWWEC, which we expect will increase our share in the total dredging services performed or outsourced by them. We believe that such strategic partnerships will help us secure new and long-term business.

Our major customers have engaged us to undertake major dredging projects. For example, TDC Port and CWWEC engaged us to undertake capital and reclamation dredging work for projects in the Caofeidian Industrial Area, Dalian Changxingdao Harbor, Jingtang Harbor and Tianjin Port. The Caofeidian Industrial Area project is a national-level plan, included as part of the PRC government’s Eleventh Five Year Plan. In April 2010, the State Council approved the designation of Dalian Changxingdao Harbor as a National Economic and Technological Development Area. The projects in Caofeidian Industrial Area and Dalian Changxingdao Harbor are expected to continue until 2030 and 2020, respectively, and we expect these projects to provide long-term sources of revenue and steady growth opportunities for us.

Our track record of key projects and our established relationships with prestigious customers also enable us to secure new and large-scale business. As a result, we have built a strong project pipeline. In July 2010 we entered into a dredging contract with CWWEC to provide capital and

BUSINESS

reclamation dredging services for a port expansion project in Jingtang Harbor, Hebei Province. In addition, in August 2010 we entered into a non-binding five-year dredging framework agreement and a non-binding letter of intent with our customers to perform capital and reclamation dredging for projects in Yancheng City, Jiangsu Province and Dongying Harbor, Shandong Province, respectively. Since the framework agreement and letter of intent are not legally binding and subject to the signing of definitive contracts, these projects may not proceed or generate any revenue. However, the Yancheng City Project is part of the ten-year Jiangsu Coastal Development Project, for which total spending is estimated to be RMB105.5 billion. Furthermore, the Dongying Harbor Project is scheduled to continue for approximately ten years and the aggregate investment amount for developing the Dongying Harbor is expected to be approximately RMB20.0 billion. Moreover, we have recently entered into certain environmental protection dredging projects with project owners. In March 2011, we entered into a non-binding cooperation memorandum with Wuhan Water Resources Development Investment Group Company Limited, the project owner of environmental protection dredging projects in Wuhan City, including Donghu Project. Since this cooperation memorandum is not legally binding and is subject to the signing of a definitive agreement, this project may not proceed or generate any revenue. In May 2011, we entered into an agreement with Yandu Management Company in respect of an environmental protection dredging project in Yandu District of Yancheng City, Jiangsu Province. We believe that our ability to secure projects and expand our pipeline of new projects will further differentiate us from our competitors and help support our sustainable growth.

We possess a strong technical team and extensive project management experience, which enable us to provide a full line of high quality dredging services, selectively engage in profitable projects and efficiently execute our projects.

Dredging is a very specialized business that involves a wide range of skills and expertise. Capital dredging, maintenance dredging, reclamation dredging and environmental protection dredging each requires different expertise. Planning and executing dredging projects require a careful assessment of different site conditions, material types and quantities to be dredged, as well as a knowledge of the functions of different dredgers.

Our senior project managers and engineers have an average of approximately 20 years of experience working in the PRC dredging industry. Our extensive project management experience and strong technical team of professional experts make us equipped to offer all four types of dredging services. We believe our ability to provide a full line of dredging services will allow us to continue to capture attractive opportunities in the PRC dredging market.

Drawing from extensive industry experience and knowledge, our execution team evaluates the potential profitability of each project before we decide whether to undertake it, in order to maximize our return. Furthermore, we believe that our extensive project management experience enhances our project efficiency, which is evidenced by our relatively high average dredger working efficiency rate and high profit margin. During the execution of our projects, our execution team maximizes dredger working efficiency through (i) selecting the appropriate dredger and equipment for a particular dredging job based on particular geological formations at the work site; (ii) adjusting dredging speed and depth as well as slurry density and velocity based on a combination

of factors; and (iii) paying attention to execution details. With the increase in the number of our experienced execution members, we are able to employ more chartering than subcontracting, which allows us to reduce costs by performing the work ourselves.

Our extensive project management experience also allows us to meet our customers' demands and leads to high client satisfaction. With our technical and management expertise, we believe we are better able to address customers' needs and project requirements than are many of our competitors, which is evidenced by our leading market position among privately owned dredging companies in China.

We have a young and versatile fleet of dredgers, flexible and profitable operation model and preventive maintenance practices, which contribute to our high dredger working efficiency rates and high profit margins.

We achieved an average dredger working efficiency rate of approximately 83% in 2010, which was higher than the industry average of 70% in China, according to the Frost & Sullivan Report. We achieved a gross profit margin of 46.0%, 35.7% and 45.4% in 2008, 2009 and 2010, respectively. Aside from our experienced technical team and extensive project management experience, we believe our high efficiency and profit margin is attributable to the following factors relating to our dredgers:

Young and versatile fleet of dredgers. The versatility and technical capabilities of our fleet of dredgers enhance our competitiveness in the PRC dredging market. We maintain a young and versatile fleet of dredgers. The average age of the dredgers we employed at December 31, 2010, at 5.8 years, was 9.6 years younger than the average age of those of CCCC, and therefore younger than the average dredger in the PRC dredging industry, according to the Frost & Sullivan Report. Due to technological advancements in dredging technologies, younger dredgers are more cost efficient and have higher working efficiency levels. In addition, younger dredgers generally require less maintenance and repair and have lower levels of downtime, thereby achieving higher dredging working efficiency rates. Some of the dredgers that we use were constructed by the world's leading dredger manufacturer in the Netherlands and are equipped with advanced technologies. One of the dredgers that we use was one of the first dredgers in China to be equipped with spud carriers, which enable operations at a larger scale. For our chartered dredgers, we have adopted stringent selection standards based on performance, efficiency, design and other factors relevant to the project for which they are to be used.

Flexible and profitable operation model. We employ a flexible operation model for dredger deployment after taking into consideration a variety of factors, such as fluctuations in the price of oil and spare parts, chartering costs, wages of crew members and our dredging capacity. In addition to performing dredging services by using our own dredgers, we also supplement our own fleet by chartering vessels owned by third parties. Chartering allows us to take on large projects in a short time frame without undertaking significant capital investment and is less costly than subcontracting. While, historically, we have also adopted subcontracting to undertake our projects, we have decreased our use of subcontracting in order to increase our profitability. Our flexible operation model enables us to take on more projects, enhance dredger efficiency rates and increase profits.

BUSINESS

Preventive maintenance practices. We emphasize preventive maintenance in order to minimize downtime, extend vessel life, reduce replacement capital expenditure requirements and maximize the working efficiency rates of our dredgers. We maintain and repair our dredgers when they are idle due to bad weather conditions, the presence of concealed underwater obstacles or third-party delays in preparing dredging sites, among other reasons, and use pumps and pipes to transport the dredged material from our dredging vessels to the relocation sites. Our technical staff continually monitors pipeline outlets to avoid plugging the pipe and pump cavitation, which may damage our equipment or lead to unscheduled downtime of our dredgers. We have also adopted stringent requirements for selecting the dredgers we charter in order to minimize the need for repairs.

We have experienced senior management who possess in-depth knowledge of our industry.

Our senior management has successfully led us through a period of rapid revenue and profit growth in recent years. Our management team is headed by our founder and Chief Executive Officer, Mr. Liu Kaijin. A veteran of the PRC dredging industry, Mr. Liu is an engineer with approximately 20 years of technical and management experience in the PRC dredging industry. Mr. Liu has been engaged in large-scale dredging projects since the early 1990s, including the Suzhou Wangyuhe Dredging Project (蘇州望虞河疏浚工程), the balancing tank and subaqueous water pipe dredging projects for the construction of Shanghai Pudong International Airport (上海浦東國際機場), the Qingdao Port expansion project (青島港擴建工程) and the Caofeidian Industrial Area project. He is supported by other members of our management team who have significant experience in the dredging industry and have extensive expertise in finance and operations, which is critical for our future success. Our project management team includes one senior project manager and three engineers with an average of approximately 20 years of experience in the dredging business. The chief engineer of the PRC Operational Entity has over 30 years of work experience in the dredging industry, including over 25 years at CWWEC and a subsidiary of CWWEC, where he held the positions of project manager, deputy head of the operations department and deputy chief engineer. The senior engineer of the PRC Operation Entity, who is responsible for research and development, graduated from Dalian Maritime University (大連海事大學) (formerly the Dalian Water Transportation College (大連海運學院)) with an engineering degree in marine machinery, and has approximately 25 years of work experience in the dredging industry. For details of the experience and the qualifications of our Directors and senior management, please refer to the section headed “Directors, Senior Management and Employees” in this prospectus.

OUR STRATEGIES

Our objective is to enhance our position as the leading privately owned dredging company based on dredging volume in China by implementing the following strategies:

Expand our capacity to capture attractive growth opportunities.

According to the Frost & Sullivan Report, the PRC dredging market is expected to grow at a CAGR of 27.1% from 2011 to 2015 in terms of dredging volume. As we expect demand for dredging in the PRC to increase, we are seeking to expand our capacity and upgrade our technology to better serve our customers and further differentiate ourselves from our competitors. We expect that increased investment in port construction projects by the PRC government and land

BUSINESS

shortage caused by population pressure will generate growing demand for capital and reclamation dredging services, respectively. In addition, we expect that sediment run-off of inland rivers will increase demand for maintenance dredging services, while widespread pollution problems, particularly in inland rivers and lakes, for which the Chinese government has allocated substantial resources will increase demand for environmental protection dredging services.

In the past, we have engaged other dredging companies through subcontracting arrangements or have been unable to take on additional dredging projects when we have experienced capacity constraints. Over the next five years, we plan to purchase or charter additional dredgers to expand our dredging capacity and maximize efficiency. Further details of this plan are set forth in “—Facilities and Equipment” below. In addition, because we rely heavily on the experience of our personnel in planning and performing dredging projects, we plan to recruit additional professionals and technical staff to operate dredgers and additional talented engineers to upgrade our dredgers and other equipment. We believe that expanding our dredging capacity will enable us to take advantage of the growing demand for dredging services in the PRC and engage in more large-scale dredging projects, which in turn may allow us to further increase our market share and develop and strengthen long-term relationships with our customers.

Increase and diversify our service offerings.

We plan to continue to pursue new growth opportunities by expanding and diversifying our service offerings. We believe that entering into different lines of business can diversify our sources of revenue and reduce our exposure to the risk of a market downturn in a given business.

First, we intend to seek out environmental protection and maintenance dredging projects. Since the PRC government is allocating additional resources for environmental protection, particularly to address the widespread problem of water pollution and deal with annual sediment runoff of inland rivers, we believe that the environmental protection and maintenance dredging sectors have significant growth potential in China. According to the Frost & Sullivan Report, the environmental protection and maintenance dredging sectors in China are expected to grow at a CAGR of 43.5% and 37.0%, respectively, between 2011 and 2015, measured in terms of dredging volume. In July 2010, March 2011 and April 2011, we signed a non-binding letter of intent, a non-binding cooperation memorandum and a framework agreement, respectively, to undertake environmental protection dredging projects for lakes in Wuhan City, Hubei Province. In addition, in May 2011, we signed an agreement pursuant to which we agreed to conduct environmental protection dredging services for rivers restoration in Yandu District of Yancheng City, Jiangsu Province. Although the letter of intent and the cooperation memorandum are subject to the signing of definitive contracts with the relevant customers and the successful commencement of the relevant projects, and these projects may not proceed or generate any revenue, we believe that the non-binding letter and memorandum represent important milestones in our efforts to build up our environmental protection dredging business. We also intend to seek out and enter into contracts for maintenance dredging projects.

Second, we intend to leverage our core competency in the dredging services business to focus on dredging-related construction projects with relatively high profit margins. For example, we plan to undertake construction work to improve reclaimed land. While we are currently focused mainly on our dredging services business, which is largely utilizing our capacity, going forward we

believe that undertaking dredging-related construction projects with relatively high profit margins can diversify our business and enable us to enhance our financial performance. We believe that the ability to deliver integrated service offerings is attractive to our customers and can enable us to further solidify our market position and realize synergies across our related businesses.

Firmly establish operations in other geographical regions in China.

Historically, we have primarily undertaken dredging and dredging-related construction work along China's northern coastline in the Bohai area. We plan to expand our operations to other geographic regions in China by leveraging our successful project experience, customer relationships and growing reputation. We believe that expansion into other regions can diversify our revenue base in China. Moreover, we believe that by establishing a presence in other regions, we may increase our market share in the PRC and enhance our reputation and attractiveness to potential customers.

We intend to focus on markets that we expect to experience significant economic growth and where the PRC government has initiated or has plans to initiate port or waterway construction projects, such as the five major coastal regions that were highlighted in the Eleventh Five Year Plan. For example, in the near term, we plan to establish additional operating bases in the coastal area of Jiangsu Province and the Yangtze River Delta. In August 2010, we entered into a non-binding five-year framework agreement and a non-binding letter of intent to perform the capital and reclamation dredging work for projects in Yancheng City, Jiangsu Province and Dongying Harbor, Shandong Province, respectively. Although our engagements in these projects are subject to the signing of definitive contracts with the relevant customers and the successful commencement of the relevant projects and these projects may not proceed or generate revenue, we believe these projects represent significant opportunities for us to expand our geographical presence. Furthermore, in September 2010, we were engaged in contract work to provide dredging services in the Yangpu Area of Hainan Province. As we plan to undertake more environmental protection and maintenance dredging projects, we may also extend our operations to other inland areas in China.

Further improve our cost structure, operational efficiency and service quality.

We plan to reduce costs and increase efficiency by:

- *Reducing the use of subcontractors.* As we intend to continue to make significant investments to expand the scale and scope of our dredging capacity, we expect to reduce our reliance on subcontractors, which we believe can support higher gross profit margins and allow us to gain more control over our work quality.
- *Reducing exposure to material price volatility.* We intend to achieve cost savings in fuel and chartering expenses by entering into new agreements with more favorable terms. For example, we have begun and intend to continue to limit our exposure to material price volatility by entering into contracts with customers which contain escalation clauses under which the customer bears a significant portion of increases in the cost of materials, such as fuel. For example, our non-binding framework agreement with Haixing for the Yancheng City project contains such an escalation clause requiring Haixing to bear increases in material costs in excess of 3%. We also intend to enter into

BUSINESS

an amendment to our contract with CWVEC for the Jingtang Harbor project to add such an escalation clause. These clauses help to mitigate the impact on us of any significant increases in the price of fuel.

- *Upgrading technology and equipment.* We plan to pursue and implement new technology and improvements in equipment to increase our dredger working efficiency rates and capacity, including a pump upgrade for one of our dredgers, which is targeted to increase its dredging capacity and operational efficiency. We intend to continue to undertake upgrades in the future to keep pace with evolving industry standards.

Pursue strategic acquisitions.

Because the dredging industry is capital intensive and highly specialized, there are significant barriers to entry for smaller enterprises. In particular, dredging companies must meet strict qualification requirements set by the PRC National Port and Waterway Engineering Construction Qualifications. We believe that China's dredging market presents significant opportunities for consolidation, as smaller enterprises with less advanced technology and limited capital resources may find it difficult to compete with larger enterprises. We intend to selectively pursue strategic acquisitions in order to diversify our service offerings, increase our market share and expand our geographical presence. As at the Latest Practicable Date, we have not identified any potential target for acquisition.

We intend to pursue acquisitions of companies that are engaged in maintenance and environmental protection dredging projects, companies that have additional capabilities and/or companies that possess advanced dredging know-how and technology. In addition, we plan to acquire companies that have long-term dredging contracts with customers. We believe that our financial strength, industry expertise and experienced management team can help us identify attractive acquisition candidates.

OUR OPERATIONS

Dredging Business

We are engaged in providing capital dredging, reclamation dredging, maintenance dredging and environmental protection dredging services. Dredging services together accounted for approximately 73.3%, 83.1% and 96.8% of our revenue and 85.3%, 88.3% and 98.6% of our gross profit in the years ended December 31, 2008, 2009 and 2010, respectively.

We provide our dredging services through a combination of three methods, which include providing dredging services ourselves by using our own dredgers, employing dredgers that we charter from third parties and electing to engage other dredging companies through subcontracting arrangements based on the workload or the timeframe of the project. We employ these three different modes of operation, and we may change our mode of operation after our projects are underway, taking into consideration a variety of factors, such as fluctuations in the price of oil or spare parts, chartering costs, wages of crew members and our dredging capacity. We also consider factors such as the duration of a project, type of dredger suitable for a project and availability of financing. This flexible operation model enables us to take on more projects, enhance our dredger working efficiency rates and increase our profits.

Our project management team's extensive dredging expertise enables us to effectively manage our production performance, including the monitoring of (i) slurry density and velocity, (ii) pump suction and discharge pressure, power and speed, (iii) cutter power and speed, (iv) swing speed, (v) digging depth, (vi) tidal cycles and (vii) changing weather conditions.

The operation of dredging involves the following three general processes: (i) submarine excavation, (ii) transport and (iii) utilization or disposal.

(i) *Submarine Excavation*

Submarine excavation involves the dislodgement and removal of sediment or rock from the bed of a water body. A dredger can be used to excavate material either hydraulically or mechanically.

We operate two types of dredgers: cutter suction dredgers and grab dredgers. Cutter suction dredgers remove material by using a revolving cutterhead which cuts and churns the materials and pumps it as a slurry to the relocation site. Grab dredgers use a grab or bucket to pick up the materials to be dredged.

We have installed a system that uses global positioning satellite technology to aid our dredger operators in positioning dredgers by displaying cutterhead elevation and cut-and-fill depths on a monitor and providing real-time report data for cutterhead position and depths. We adjust the dredging speed and depth based on various parameters related to production performance.

(ii) *Transport of Excavated Material*

We typically transport dredged materials from the dredging site to the site of utilization, disposal or intermediate treatment (the "**relocation site**") by using one of the following means: (i) on barges; and (ii) through pipelines. Other available transport means include truck and conveyor belt transport. The means of transport used is generally related to the type of dredger used.

Hydraulic dredgers transport dredged material from the cutter suction dredger through a system of pumps and pipes (a "**pump off system**") directly to the relocation site. Mechanical dredgers typically pick up and place the dredged material on a barge which then transports the material to a relocation site by trucks, barges or occasionally conveyor belts.

For hydraulic dredgers, we have adopted a pump off system to deposit dredged material at the relocation site. Booster pumps are installed to assist the dredge pump to achieve extended distances between dredge sites and the relocation sites. The booster pumps then push the material to a relocation site through the pipeline. We monitor pipeline outlets to avoid plugging the pipeline and pump cavitation, which may cause inefficiencies or damage our equipment.

(iii) *Utilization or Disposal of Dredged Material*

We typically select a utilization or disposal alternative based on the project purpose, economics and the physical properties of the dredged material. In reclamation dredging, new land area is formed from dredged material. The general objective of maintenance dredging is to remove material that has accumulated in waterways. For environmental protection dredging, the general objective is typically to remove contaminated sediment, pollutants or other similar material.

BUSINESS

Most of our current dredging services lead to onshore or near-shore disposal of dredged material. Dredge slurries are dried through a process known as dewatering and can be used to create new land.

Dredging-related Construction Business

In addition to dredging services, we provide dredging-related construction services. Our dredging-related construction services include small-scale land reclamation construction, temporary road construction and soil compaction. We commenced our dredging-related construction business in 2008, and most of our dredging-related construction projects have been in connection with the Caofeidian Industrial Area project in Tangshan, Hebei Province. During the Track Record Period, we subcontracted all of our dredging-related construction work to third parties. Dredging-related construction services accounted for approximately 26.7%, 16.9% and 3.2% of our revenue and 14.7%, 11.7% and 1.4% of our gross profit in the years ended December 31, 2008, 2009 and 2010, respectively.

During the Track Record Period, our dredging business grew at a faster rate than our dredging-related construction business because we focused on providing dredging services, which have a higher gross profit margin than dredging-related construction services.

OUR DREDGING CONTRACTS

Ongoing and Recently Completed Projects

As at the Latest Practicable Date, we have undertaken or have recently completed contract work on the following major dredging projects:

- *Caofeidian Industrial Area Project.* Since 2007, we have been engaged by TDC Port and other clients in contract work to provide capital and reclamation dredging services for the port expansion project in the Caofeidian Industrial Area, including deepening of the harbor and waterway channels and providing materials for constructing reclaimed land for additional port facilities. This port expansion project was included in PRC government's Eleventh Five Year Plan and is expected to continue until about 2030. Due to the large-scale nature of this project, the project owner divides the work into sub-projects covering different phases and offers individual contracts for each sub-project. Our services have been provided on a continuous basis as our contracts with TDC Port and other clients have been periodically renewed after completion of each sub-project. Most recently, we were engaged by TDC Port in November 2010 to provide capital and reclamation dredging services and pursuant to an amendment to this contract we entered into in February 2011, the amount of sediment to be excavated under the contract is approximately 15 million cubic meters.
- *Dalian Changxingdao Harbor Project.* Since 2008, we have been engaged by CWVEC and other clients in contract work to provide capital and reclamation dredging services for the port expansion project in the Dalian Changxingdao Harbor Industrial Area, which is a development site in Dalian, Liaoning Province. In April 2010, the State Council approved the designation of Dalian Changxingdao Harbor Industrial Area as a National Economic and Technological Development Area. This project is scheduled to continue until about 2020. Due to the large scale of this project, the project owner divides the work into sub-projects covering different phases and offers individual contracts for each sub-project. Our services have been provided on a continuous basis as our contracts with CWVEC and other clients

BUSINESS

have been periodically renewed after completion of each sub-project. We entered into a contract with CWWEC in April 2010 to provide capital and reclamation dredging services, and under an amendment to this contract we entered into in February 2011, the amount of sediment to be excavated under the contract is approximately 10 million cubic meters. In January 2011, we entered into another contract with CWWEC to provide capital and reclamation dredging services under which the amount of sediment to be excavated is approximately 15 million cubic meters.

- *Qingdao National High-tech Industrial Development Area Project.* In 2009, we were engaged by Qingdao Haifang Construction Bureau (青島海防工程局) in contract work to provide capital and reclamation dredging services in the Qingdao National High-tech Industrial Development Area, which is a new development area in Qingdao, Shandong Province. This project was completed at the end of 2009.
- *Jingtang Harbor Project.* In July 2010, we were engaged by CWWEC in contract work to provide capital and reclamation dredging services in Jingtang Harbor in Hebei Province and under the agreement we entered into in December 2010, the estimated contract amount is approximately RMB800 million.
- *Yingkou Harbor Project.* In September 2010, we were engaged by the Yingkou Harbor Dredging Construction Company Limited (營口港一疏浚工程有限公司) in contract work to provide capital dredging services in Yingkou Harbor. The amount of sediment to be excavated under the contract is approximately 15 million cubic meters.
- *Hainan Yangpu Project.* In September 2010, we were engaged by CCCC Tianjin Dredging Co., Ltd. (中交天津航道局有限公司) in contract work to provide dredging services in a deepwater channel and coastal waterway dredging project in the Yangpu Area of Hainan Province. The amount of sediment to be excavated under the contract is approximately 5 million cubic meters.
- *Tianjin Port Project.* In November 2010, we were engaged by TDC Port to provide capital and reclamation dredging services for the port expansion project in Tianjin Port. The amount of sediment to be excavated under this contract is approximately 10 million cubic meters. In April 2011, we entered into an additional contract with TDC Port to provide capital and reclamation dredging services in another area of Tianjin Port for the same port expansion project. The amount of sediment to be excavated under this second contract is approximately 20 million cubic meters.
- *Yandu Rivers Project.* In May 2011, we entered into an agreement with Yandu Management Company pursuant to which we agreed to conduct environmental protection dredging work for restoring the ecology and treating the polluted waters of the rivers and waterway improvement services in Yandu District of Yancheng City, Jiangsu Province. The total aggregate value of the Yandu Rivers Project is estimated to be RMB1.8 billion and its term is expected to be from August 2011 to August 2014. Pursuant to the agreement, Yandu Management Company will provide the plans for and monitor the Yandu Rivers Project and we will perform the dredging and construction work in accordance with such plans. Yandu Management Company has agreed to pay us 40% of the total project price after the completion of the verification and examination of the project by the local government, an

BUSINESS

additional 40% of the total project price on the first anniversary of the first payment, and the remaining 20% on the second anniversary of the first payment. In addition, Yandu Management Company has agreed that our yearly investment return for the Yandu Rivers Project shall be no less than 25% which is agreed to be paid in line with the payment schedule of the total project price. The actual project price shall be determined under definitive contracts for individual sub-projects. The agreement provides that the first batch of individual contracts shall be entered into no later than July 31, 2011. Pursuant to the agreement, Yandu Management Company's funding sources for its payments include public funds collected by the Yandu District Local Government and a guarantee provided by the Yandu District Local Government, both of which have been approved by the Standing Committee of Yandu District of Yancheng City. In May 2011, the Standing Committee of the Yandu District Local Government resolved to approve the appointment of Yandu Management Company and our Company to conduct the Yandu Rivers Project and to include the RMB1.8 billion repayment amount for this project in its budget for the relevant years after 2012.

We have also been involved in capital, reclamation and maintenance dredging projects in other regions in China, including (i) Hulu Island, Liaoning Province, (ii) Dayaowan, Liaoning Province and (iii) Longkou, Shandong Province.

Historical Order Backlog

The following chart sets forth the order backlog information of our dredging services business during the Track Record Period.

	2008	2009	2010
	(RMB in millions)		
Backlog order beginning balance ⁽¹⁾	16.2	138.0	110.2
New contracts signed	222.9	269.9	1,409.5
Orders completed ⁽²⁾	101.1	297.7	375.4
Backlog order ending balance ⁽³⁾	138.0	110.2	1,144.3

⁽¹⁾ Includes all backlog orders on a contract basis, excluding non-binding framework agreements and letters of intent as of January 1 of the respective year.

⁽²⁾ Figures provided are on a pre-tax basis.

⁽³⁾ As of December 31 of the respective year.

BUSINESS

The chart below sets forth information regarding our currently effective, major dredging contracts as at the Latest Practicable Date, including estimated backlog as of December 31, 2010, which is a commonly used measure in the dredging industry to illustrate potential future revenue to be earned under a relevant contract.

Project	Description	Stated Contract Amount	Value of Work Completed by December 31, 2010 ⁽¹⁾	Estimated Backlog as of December 31, 2010 ⁽²⁾	Contract Period	Implementation Status	Customer
(RMB in millions)							
Caofeidian Industrial Area Project . . .	Contract for capital and reclamation dredging services	142.5	18.1	124.4	November 2010 to July 2011	Already commenced work	TDC Port
Dalian Changxingdao Harbor Project	Contract for capital and reclamation dredging services	103.2	52.2	51.0	April 2010 to February 2012	Already commenced work	CWVEC
	Contract for capital and reclamation dredging services	240.8	N/A ⁽³⁾	N/A ⁽³⁾	February 2011 to February 2012	Already commenced work	CWVEC
Jingtang Harbor Project	Contract for capital and reclamation dredging services	800.0	104.8	695.2	June 2010 to June 2012	Already commenced work	CWVEC
Yingkou Harbor Project	Contract for capital and reclamation dredging services	202.5	5.4	197.1	September 2010 to December 2011	Already commenced work	Yingkou Harbor Dredging Construction Company Limited
Hainan Yangpu Project	Contract for capital and reclamation dredging services	55.2	3.5	51.7	October 2010 to March 2011	Already commenced work	CCCC Tianjin Dredging Co., Ltd.
Tianjin Port Project	Contract for capital and reclamation dredging services	105.0	11.0	94.0	November 2010 to October 2011	Already commenced work	TDC Port
	Contract for capital and reclamation dredging	210.0	N/A ⁽³⁾	N/A ⁽³⁾	June 2011 to June 2012	Already commenced work	TDC Port
Yandu Rivers Project	Agreement with the Yandu Management Company in respect of an environmental protection dredging project	1,800.0	N/A ⁽³⁾	N/A ⁽³⁾	August 2011 to August 2014	Subject to definitive individual contracts	Yandu Management Company

Notes:

- (1) Value of work completed equals the actual volume of dredged material times the relevant contract price.
- (2) Estimated backlog is the total amount specified in the relevant contract less any amounts received for completed work as of December 31, 2010.
- (3) Not applicable since entered into after December 31, 2010.

The dredging and related services that we provide under certain of these contracts cover a portion of the dredging work for large-scale dredging projects. Therefore, in order to continue to work on such projects, we must periodically seek to enter into new contracts or renew contracts upon expiration. In addition, if our customers fail to make payments or delay in making payments, we may not be able to receive the backlog amounts in a timely manner or at all. Please see “Risk factors — Risks Relating to

BUSINESS

Our Industry and Our Business — We commit to pay significant costs before receiving payment from our customers and if we are unable to collect our accounts receivable or suffer impairment losses, our liquidity, financial condition and results of operation may be materially and adversely affected” for additional details.

Future Prospects — Non-binding Letters of Intent and Framework Agreement

In addition to our ongoing and recently completed projects described above, we have entered into the following letters of intent and framework agreement to undertake work on new dredging projects, including key infrastructure construction and development projects in China. The framework agreement and the letters of intent are not legally binding and subject to signing of definitive contracts, and therefore may not result in revenue.

- *Wuhan City Projects (including Donghu Project).* We have entered into a series of letters of intent and framework agreements for certain dredging projects in Donghu, Nanhu and Guanjiaohu of Wuhan City since July 2010. In July 2010, we entered into an initial non-binding letter of intent with HCQD under which HCQD agreed to engage us in contract work to provide environmental protection dredging services in Donghu, Wuhan City if it is awarded a contract for this project. To expedite the process of Donghu Project and explore other opportunities in performing dredging services in Wuhan City, in March 2011, we entered into a non-binding cooperation memorandum with Wuhan Water Resources Development Investment Group Company Limited (武漢水資源發展投資集團有限公司), the project owner of environmental protection dredging projects in Wuhan City, including the Donghu Project. Pursuant to the memorandum, subject to (i) our importation of certain foreign technology and equipment and (ii) our successful completion of the Guanjiaohu Project (as described below) we may participate in the lake clean-up projects pursuant to certain legal procedures for Donghu and Nanhu. Furthermore, in April 2011, we entered into a non-binding cooperation framework agreement with Wuhan Guanjiaohu Water Pollution Treatment Project Department (武漢官橋湖(廟湖)污泥清除工程項目經理部) relating to a trial project for silt removal and dehydration in Guanjiaohu in Wuhan City, or the Guanjiaohu Project. The total spending for the Guanjiaohu Project is provisionally estimated to be RMB6.7 million and its term is provisionally set to be five months.

Our engagement for each of the letter of intent and cooperation memorandum is subject to the signing of a definitive contract and the successful commencement of the relevant project. Pursuant to the cooperation framework agreement, we must submit to Shanghai Waterway Contractor Company Limited a comprehensive plan within one month of the signing of the agreement. In addition, if we do not enter into a definitive contract with Shanghai Waterway Contractor Company Limited for the Guanjiaohu Project within four months of the signing of the agreement, then the agreement will lapse. We expect to enter into the definitive contract soon.

- *Yancheng City Project.* In August 2010, we entered into a five-year non-binding framework agreement with Haixing, a company owned by the Yancheng City municipal government, under which Haixing has agreed to engage us to provide capital and reclamation dredging services for the development project in Yancheng City, Jiangsu Province. Under the terms of the agreement, Haixing agreed to engage us to provide dredging work involving output of no

BUSINESS

less than an aggregate of 120 million cubic meters over 2011 and 2012 with a minimum of 50 million cubic meters to be output in 2011. The term of this agreement is from January 2011 to December 2015 and may be extended to 2020 upon mutual consent. Since Haixing is the project owner of this project, we expect to be engaged directly by the project owner rather than as a subcontractor. The Yancheng City project is part of the ten-year Jiangsu Coastal Development Project, for which total spending is estimated to be RMB105.5 billion, or approximately five to six times larger than that of the Caofeidian Industrial Area project. By 2020, the Yancheng City project site is expected to have the largest area of reclaimed land in Jiangsu Province. Our engagement is subject to the signing of a definitive contract and the successful commencement of the project.

- Dongying Harbor Project.* In August 2010, we entered into a non-binding letter of intent with the Dongying Committee under which the Dongying Committee agreed to engage us to provide capital and reclamation services for phase one of the port expansion project in Dongying Harbor, Shandong Province. Since Dongying Committee is the project owner of this project, we expect to be engaged directly by the project owner rather than as a subcontractor. The Dongying Harbor was designated as the chief harbor of the Yangtze River Delta in Shandong Province by the State Council in its Development Plan for the Efficient Ecological and Economic Zone in the Yangtze River Delta (長江三角洲高效生態經濟區發展規劃). Our engagement is subject to the signing of a definitive contract and the successful commencement of the project.

The chart below sets forth information regarding our non-binding framework agreement and letters of intent as at the Latest Practicable Date, including estimated backlog.

Project	Description	Stated	Value of Work		Contract Period	Implementation Status	Customer
		Contract Amount	Completed by December 31, 2010 ⁽¹⁾	Estimated Backlog ⁽²⁾			
		(RMB in millions) ⁽³⁾	(RMB in millions)	(RMB in millions) ⁽³⁾			
Yancheng City Project	Non-binding framework agreement for capital and reclamation dredging services	1,200.0 ⁽³⁾	—	1,200.0 ⁽³⁾	2011 to 2015	Expect to commence work in October 2011, subject to definitive contract	Haixing
Dongying Harbor Project	Non-binding letter of intent for capital and reclamation dredging services	1,500.0–2,500.0 ⁽⁴⁾	—	1,500.0–2,500.0 ⁽⁴⁾	To be determined	Subject to definitive contract	Dongying Committee
Wuhan City Projects (including Donghu Project)	Non-binding letter of intent and cooperation memorandum and framework agreement for environmental protection dredging	—	—	—	To be determined	Subject to definitive contract ⁽⁵⁾	HCQD, Wuhan Water Resources Development Investment Group Company Limited and Shanghai Waterway Contractor Company Limited

⁽¹⁾ Value of work completed equals the actual volume of dredged material times the relevant contract price.

⁽²⁾ Estimated backlog is the total amount specified in the relevant contract less any amounts received for completed work as of December 31, 2010.

⁽³⁾ Based on estimated output.

BUSINESS

- (4) Pursuant to the non-binding letter of intent, the Dongying Committee has agreed preliminarily to allow us to subcontract a portion of contracts having an aggregate amount of RMB3.0 billion to RMB5.0 billion at a rate not less than 50%.
- (5) We expect to enter into the definitive contract with Shanghai Waterway Contractor Company Limited soon.

FACILITIES AND EQUIPMENT

Owned Dredgers

Our operations depend heavily on dredgers and other dredging equipment. Dredgers can be grouped into two broad categories: hydraulic and mechanical dredgers. Hydraulic dredgers (including cutter suction dredgers) act like large vacuum cleaners. They may have a cutterhead at the suction inlet to loosen the material. Mechanical dredgers such as grab dredgers use one or more buckets of various designs to pick up the material to be dredged. The material is typically placed onto a barge and transported to a relocation site.

We use both hydraulic and mechanical dredgers. The selection of dredging equipment for a particular project depends upon a combination of factors, including the characteristics of the physical environment, the method of equipment placement, the distance to the relocation site, as well as the nature, quantity and quality of the material to be dredged. The two principal types of dredgers we use are:

- *Cutter Suction Dredgers.* A cutter suction dredger is a type of hydraulic dredger. Cutter suction dredgers are capable of dredging rocks. Certain materials can be pumped to a longer distance with the aid of booster pumps. Cutter suction dredgers work with an assortment of support equipment, which help with the positioning and movement of the dredger, handling of the pipelines, and the relocation of the dredged material. As at the Latest Practicable Date, we owned two cutter suction dredgers with a combined hourly dredging capacity of approximately 5,500 cubic meters according to Frost & Sullivan Report.
- *Grab Dredgers.* A grab dredger is a type of mechanical dredger. Grab dredgers are capable of removing hardpacked sediments and debris and can work in tight areas such as areas along docks or terminals. Grab dredgers with specialized buckets are more suitable for handling material requiring controlled disposal. The dredged material is placed onto material barges for transport to the designated relocation site. The barges are emptied by bottom-dumping, direct pump-out or removal by crane. As at the Latest Practicable Date, we owned one grab dredger with an hourly dredging capacity of approximately 400 cubic meters.

We depreciate the cost of dredgers over their estimated useful lives by using the straight line method after taking into account their estimated residual value at a rate of 5.0% to 6.7%.

Our dredger staff consists of project managers and crew members who work on our dredgers on a shift basis. We believe our dredger staffing levels are in line with the market practice and relevant regulatory requirements in China.

BUSINESS

Chartered Dredgers

When we require additional capacity to fulfill obligations under our contracts, we may charter additional dredgers from third parties. Chartering typically involves hiring dredgers for one to two years. We normally charter dredgers from other dredging companies in China. Charter agreements are negotiated and determined based on factors such as the type, cost and age of vessels chartered, market trends, term of the charter and the identity of owners of vessels. We have not experienced any significant difficulty in securing charters for suitable vessels for our operations. As at the Latest Practicable Date, we chartered six cutter suction dredgers that had a combined hourly dredging capacity of approximately 16,500 cubic meters.

Set forth below is a summary of the key terms of our charter agreements.

Pricing and payment terms. All of our dredger charter agreements are fixed-price contracts. We are required to make monthly payments to the dredger owner on or prior to a certain date each month.

Duration of contracts. The terms of our charter agreements are generally one to two years. Some of our charter agreements are renewable upon expiration with mutual consent.

Provision of crew members. All of our charter agreements provide dredgers together with a specified number of crew members. We typically employ our own project managers to supervise these crew members.

Maintenance and other expenses. Dredger owners may or may not be responsible for the cost of technical maintenance and other expenses, such as salaries of crew members and insurance expenses. Similarly we may or may not be responsible for paying the operating services and technical maintenance, including salaries and other fees paid to operating personnel and fuel, safety check and insurance expenses, depending on the specific charter agreement.

Other requirements. We are required to pay performance deposits in some charter agreements. We are restricted from subleasing dredgers to third parties.

While both chartering and subcontracting allow us to take on large projects in a short time frame without undertaking capital investment, chartering generally results in lower costs and higher margins than subcontracting. Unlike subcontracting, where the dredging work is substantially conducted by subcontractors under subcontracting agreements, we manage and perform dredging services ourselves by using dredgers that we charter from third parties. Although vessel owners provide dredgers together with crew members, we still employ our own managers onboard to supervise these crew members.

In the years ended December 31, 2008, 2009 and 2010, our chartering cost amounted to RMB9.9 million, RMB20.4 million and RMB72.0 million, respectively, and represented 13.8%, 9.2% and 35.1% respectively, of our total operating cost in these periods.

BUSINESS

The following table sets forth the number of our owned and chartered dredgers at each year end.

	Number of Owned Dredgers	Number of Chartered Dredgers	Total Number of Dredgers
December 31, 2008	1	2	3
December 31, 2009	1	2	3
December 31, 2010	3	6	9

The following table provides a list of the dredgers which we employed as of December 31, 2010.

Name of Dredger	Type of Dredger	Ownership	Year of Construction (year)	Hourly Dredging Capacity ⁽¹⁾ (cubic meters)	2010 Working Efficiency Rate ⁽²⁾
Zhuayang No. 101	Grab dredger	Owned	2004	400	N/A ⁽³⁾
Kaijin No. 1 ⁽⁴⁾⁽⁵⁾	Cutter suction dredger	Owned	2006	3,000	80%
Kaijin No. 3 ⁽⁴⁾⁽⁶⁾	Cutter suction dredger	Owned	2008	2,500	89%
Jianghe No. 13	Cutter suction dredger	Chartered	2001	1,200	86%
Jianghe No. 26	Cutter suction dredger	Chartered	2001	1,200	86%
Beiya No. 1	Cutter suction dredger	Chartered	2005	2,500	89%
Fushenggong No. 1	Cutter suction dredger	Chartered	2009	4,000	90%
Xinkegong No. 1	Cutter suction dredger	Chartered	1995	3,800	71%
Honglinjun No. 18	Cutter suction dredger	Chartered	2009	3,800	76%

⁽¹⁾ Hourly dredging capacity is the total volume of material which a dredger is theoretically capable of dredging per hour.

⁽²⁾ In accordance with the PRC standard dredging industry guidelines, each dredger's working efficiency rate is calculated using the following formula: (Q×P)/C. In this formula, Q is the volume of slurry that has flowed through the dredger's pump during a given period, P is the percentage of solids in the dredged slurry, and C is the dredger's designed capacity for dredging solids during a given period.

⁽³⁾ The working efficiency rate measure is not relevant for this dredger because it is used as a secondary support dredger on a limited number of projects.

⁽⁴⁾ Kaijin No. 1 and Kaijin No. 3 are both 50% owned by Xiangyu PRC and 50% owned by the PRC Operational Entity.

⁽⁵⁾ Formerly known as Xin Hehai.

⁽⁶⁾ Formerly known as Shen Yuan.

The Maritime Safety Administration of the PRC will not register the ownership of a vessel if it is owned by any enterprise whose registered capital is contributed by Chinese investor(s) by less than 50%. The relevant vessels for the purpose of engaging in the dredging business may be either (i) wholly-owned by a single Chinese individual or a single Chinese enterprise so long as its registered capital contributed by Chinese investor(s) is 50% or more or (ii) jointly-owned by two or more individuals or enterprises so long as 50% or more of the interest in or ownership of the said vessel belongs to Chinese investor(s). Our Group has decided that Xiangyu PRC owns 50% of the relevant vessels, being the largest possible percentage that a foreign investor may own under PRC laws to register the ownership of the relevant vessels (the PRC Operational Entity being the owner of the remaining 50% interest of the relevant vessels) for certain commercial reasons including (i) allowing

BUSINESS

Xiangyu PRC to have the largest possible direct control over the vessels under PRC laws, and (ii) injecting assets to Xiangyu PRC to facilitate certain financing and fund-raising exercises of the equity-owned group (for example, the relevant vessels owned by Xiangyu PRC were pledged to certain financial institutions for securing the Pre-IPO Investments, which pledges will be released on the Listing Date, and banks loans).

Our PRC Legal Advisers have advised us that such ownership structure is in compliance with the PRC laws. According to the PRC Property Law (中國共和國物權法), immovables or movables may be co-owned by two or more enterprises or individuals, and persons who share the ownership of immovables or movables shall be entitled to the ownership rights proportionally. Further, the Regulations of the People's Republic of China Governing the Registration of Vessels (中華人民共和國船舶登記條例) clarifies that vessels could be jointly owned by two or more enterprises or individuals.

Our PRC Legal Advisers have further advised us that there is no requirement under PRC laws that the entire interest in a vessel must be owned by a single owner before the Maritime Safety Administration will complete the registration of the vessel.

Zhuayang No. 101 was injected by Mr. Liu into the PRC Operational Entity in July 2008 when the registered capital of the PRC Operational Entity was increased. Kaijin No. 1 and Kaijin No. 3 were acquired by Mr. Liu on June 30, 2010 at an aggregate consideration of RMB346 million through pre-IPO investors' financing and then transferred to our Group for the same price pursuant to the sales and purchase agreements dated the same date due to our Group's insufficient cash flow to acquire the said vessels directly from the original owners. The amount payable to Mr. Liu was recorded as the amount due to a director. Please refer to note 20(iii) of Appendix I (Accountants' Report) to this prospectus for details.

We have high dredger working efficiency rates compared to the industry average. According to the Frost & Sullivan Report, we had an average dredger working efficiency rate of approximately 83% during the year ended December 31, 2010, which was higher than the industry average of 70% in China.

Over the next five years, we intend to use the net proceeds from the Global Offering to purchase or charter additional dredgers to expand our dredging capacity and maximize efficiency. See "Future Plans and Use of Proceeds — Use of Proceeds" for more information about our intended use of the net proceeds from the Global Offering.

Moving of Dredgers

Since dredgers are not designed for long distance travel, we engage third party companies to tug our dredgers by water over long distances either within a project area or, more often, from one project site to another. In the past, transporting our dredgers has usually taken between several days to several weeks, though the time (and cost) depends on the distances covered.

Maintenance and Repair

We believe that the dredgers we use are well-maintained and suitable for our current operations. As at December 31, 2010, the average age of the dredgers that we employed was 5.8 years old, which was 9.6 years younger than the average age of those of CCCC and therefore younger than the average dredger in the Chinese dredging industry, according to the Frost & Sullivan Report.

BUSINESS

We are committed to preventive maintenance to extend the lives of our dredgers and achieve relatively low level of downtime. We undertake major dry dock repair and maintenance of our dredgers every two years. Dry dock repair typically takes 1.5 to 2 months to complete. In addition, when our dredgers do not perform dredging work due to bad weather conditions or other reasons, we maintain and repair them. Depending on the terms of charter agreements, we may or may not need to pay for the maintenance and repair of the dredgers we charter. In the years ended December 31, 2008, 2009 and 2010, respectively, we spent approximately RMB4.3 million, RMB13.2 million and RMB31.5 million on spare parts, repairs and insurance.

In addition, we periodically assess the need to upgrade the dredgers that we own in order to take advantage of improved technology and meet the changing needs of the dredging market.

SUBCONTRACTING

In addition to using our own dredgers or chartering dredgers, when we have capacity constraints, we also provide dredging services through subcontractors. We engage other dredging companies through subcontracting arrangements based on the workload and the timeframe of the project. Unlike chartering, where we perform the dredging work ourselves, the dredging work is substantially conducted by subcontractors under subcontracting arrangements. However, we still maintain supervision over our subcontractors. We typically designate a project manager to coordinate with the subcontractors and inspect the quality of their dredging work to ensure compliance with our standards and requirements. The project manager performs on-site inspections and supervision on a day-to-day basis.

Our subcontractors are other dredging companies in China. We maintain good relationships with our subcontractors and we have not had any significant difficulty in identifying or engaging subcontractors to provide dredging services.

In the years ended December 31, 2008, 2009 and 2010, our subcontracting charges amounted to RMB34.1 million, RMB153.2 million and RMB12.6 million, respectively, representing 47.4%, 68.7%, and 6.2%, respectively, of our total operating cost in these periods. Generally, subcontracting, which is done on a short-term basis, results in higher costs than the work we perform ourselves through the use of our own dredgers or chartered dredgers. Because we intend to continue to make significant investments to expand the scale, scope and flexibility of our dredging capacity, we expect to reduce our reliance on subcontractors. We expect that reducing the engagement of subcontractors will enhance our ability to achieve higher gross profit margins. However, reducing the engagement of subcontractors will require us to make more capital expenditures to purchase or charter dredgers and we will record more depreciation costs or chartering costs. In addition, it will lead to an increase in operation headcount to support our expansion of capacity. We expect to fund these capital expenditures with the net proceeds from the Global Offering and net cash generated from our operations. Moreover, should there be a significant decrease in our contracts, we may be subject to the risk of overcapacity.

CUSTOMERS

Our customers are typically state-owned enterprises and obtain most of their dredging contracts through a competitive bidding process on terms specified by the project owner inviting the bids. We typically work with our customers to prepare their bids to the project owners. The specifications of the development project as set out in the tender document dictate the types of equipment, material and labor

BUSINESS

involved, all of which are factored into the costs of performing the contract and the resulting bid by our customer. After our customers win bids, we enter into contracts with them, which require the same types of equipment, material and labor and involve the same related costs.

Each individual contract that our client obtains from the project owner and which they subcontract to us usually covers only a portion of the dredging work required for a particular coastal development project and is short-term in nature. As a result, we must periodically seek to renew our contracts or enter into new contracts. Due in part to our good customer relationships and reputation for delivering good quality services, we have not experienced any significant difficulty in renewing our contracts or entering into new contracts with our existing customers after completion of our contracts.

Largest Customers

In the years ended December 31, 2008, 2009 and 2010, our largest five customers accounted for approximately 97.3%, 96.9% and 99.3%, respectively, of our revenue. During the same periods, our largest customer, TDC Port, accounted for approximately 49.7%, 54.1% and 51.7%, respectively, of our revenue. Since most contracts that our customers subcontract to us are related to long-term, large-scale projects, our customers typically divide the work into projects covering different phases and offer individual contracts for each phase. Therefore, in order to engage in these large-scale projects, we generally enter into multiple contracts with a limited number of customers.

During the Track Record Period, our largest customers included TDC Port, CWWEC, SHDC, TDC Yantai and Qingdao Haifang Construction Department.

- TDC Port and TDC Yantai are both subsidiaries of CCCC, the largest dredging company in China. TDC Port and TDC Yantai have both been our customers since 2007.
- CWWEC is a state-owned enterprise under the Changjiang Waterway Bureau, the Ministry of Transport of the PRC, which is the project owner of various government contracts. CWWEC has been our customer since 2008.
- SHDC is a privately owned dredging company and has been our customer since 2004.
- Qingdao Haifang Construction Bureau is a government office under the People's Liberation Army and engaged us to perform capital and reclamation dredging work in 2009.

Due in part to their capacity constraints, TDC Port, CWWEC, SHDC and TDC Yantai engage dredging companies, including us, to provide a significant portion of their dredging services. At the same time, because such customers are also engaged in dredging activities, they are also our competitors.

None of our Directors or their respective associates or any Shareholder (whom to the knowledge of our Directors owns more than 5% of the issued Shares) had any interest in any of our Group's five largest customers.

Strategic Partnerships

We have developed strong relationships with our customers, some of which we have successfully developed into important strategic partnerships for securing new business. In January 2008 and May 2010, respectively, we entered into strategic partnership agreements with TDC Port and CWWEC.

The scope of collaboration under our strategic partnership agreement with TDC Port includes all types of dredging and dredging-related construction projects that TDC Port undertakes in China. TDC Port is responsible for the preparatory work associated with each project and the bidding-related work and we are responsible for collecting data related thereto. Each party is responsible for its own expenses incurred during this initial stage. All projects are to be bid for and obtained in TDC Port's name and once TDC Port is awarded a bid, we are to determine a method of collaboration (such as a joint venture, subcontracting or lease) and expect to enter into a cooperation agreement with TDC Port under which, subject to our capability, we may undertake up to 50% of the contracted amount. Each party is expected to bear expenses in proportion to the contracted amount undertaken by it. If either party's work does not meet the progress or quality standards set by the project owner, the other party is entitled to adjust the contracted amount undertaken by the other party.

The scope of collaboration under the strategic partnership agreement with CWWEC includes all construction projects that CWWEC undertakes in northern China. CWWEC is responsible for the preparatory work associated with each project and the bidding-related work and we are responsible for collecting data related thereto. Each party is responsible for its own expenses incurred during this initial stage. All projects are to be bid for and obtained in CWWEC's name and once CWWEC is awarded a bid, we are to determine a method of cooperation (such as a joint venture, subcontracting or lease) and expect to enter into a cooperation agreement with CWWEC setting out the terms of our engagement. Each party is expected to bear expenses in proportion to the contracted amount undertaken by it. If CWWEC subcontracts the work to us and our work does not meet the progress or quality standards set by the project owner, CWWEC is entitled to reduce the contracted amount undertaken by us or may even demand that we withdraw from the project.

These strategic agreements do not provide how to determine the percentage of the contract sum of these projects that would be attributable to us. They are not exclusive to us and do not grant us any right of first refusal; however, we have been negotiating with TDC Port and CWWEC to modify certain terms of these strategic partnership agreements. In addition, we are also actively seeking opportunities to enter into strategic agreements with other customers.

New Customers

We have rapidly expanded our customer base to build a strong pipeline of new business and we believe that continuing to expand our customer base will help us to reduce our reliance on a limited number of customers. We have entered into an agreement, non-binding letters of intent and a non-binding cooperation memorandum with new and potential new customers to provide dredging services on various dredging projects. Our new customers for new and potential new projects include Yandu Management Company, HCQD, Wuhan Water Resources Development Investment Group Company Limited, Haixing and the Dongying Committee.

- Yandu Management Company is a state-owned enterprise which was authorized by the Yandu District Local Government in May 2011 to implement dredging, aquatic ecological restoration and treatment of polluted water for the rivers in Yandu District using a build-and-transfer model.

BUSINESS

- HCQD is a subsidiary of Changjiang Water Resources Commission, which is under the supervision of the Ministry of Water Resources of the PRC. Founded in November 1999, HCQD now possesses more than 20 dredgers, auxiliary vessels and other construction equipment for water resources and hydropower projects construction.
- Wuhan Water Resources Development Investment Group Company Limited is the project owner of environmental protection dredging projects in Wuhan City, including the Donghu Project.
- Haixing is a state-owned company of the Yancheng City municipal government, which is the project owner of various contracts related to the development project in Yancheng City, Jiangsu Province.
- Dongying Committee is the control agency of the Dongying Harbor Economic Development Area.

PROJECT SOURCING AND MANAGEMENT

Our operations principally involve identifying potential projects, working with our customers to prepare tenders, securing contracts from our customers and performing the contracted work. We have developed a comprehensive project management system that covers tender preparation, project planning, contract management, contract performance, project control, project completion and handover.

Identification of Projects

We identify potential projects from a variety of sources, mainly through the efforts of our business development personnel and through meetings with customers and other industry participants such as architects and engineers.

Pre-Qualification

After deciding which contracts to pursue, we are generally required to complete a prequalification process with the project owner. Project owners generally require that we or our customers meet certain qualification requirements before negotiating or accepting our or our customer's bid for a project. These qualification requirements are disclosed in tender documents issued by project owners, which usually include debt-equity ratio and other financial conditions, bid bonds, certifications, past experience, and availability of personnel, fleet and equipment.

Project Selection

If we are pre-qualified for a project, we carry out a detailed study of the proposed project. The study includes the technical and commercial conditions and requirements of the tender and a site visit. We decide whether to pursue a project based on factors including project size, duration, competitive advantages and disadvantages, prior experience, the identity of the contracting agency or project owner's source of project funding, and type of contract.

Bidding/Tenders

After completing the study, we submit our bid or assist our customer to submit its bid. Since most of our contracts are awarded and carried out on a fixed-price basis with a pre-determined timetable for project completion, bids are designed to meet those requirements. The nature of the specified services dictates the type of dredger, equipment and labor involved, all of which affect our cost of performing the contract and the price that we or our customer bids. The project owner usually selects the winning bidder by scoring bids submitted based on the evaluation criteria listed in their tender documents.

Contract Terms

Pricing. Most of our contracts with our customers are fixed-price contracts. These contracts are based on quantitative measures of dredging, meaning there is a net price per volume of material dredged. The mode of payment is based on the quantity of material dredged. A unit price for the material dredged (per cubic meter) is set forth under these contracts.

Payment terms. Most of our contracts do not require advance payments, but instead provide for monthly progress payments with reference to the value of work completed each month (typically 70% to 80% of the value of work completed in the previous month). Generally, a customer's project or site manager measures the work completed and issues a progress certificate certifying the work done. The remaining balance (excluding retention money which is released after certain time upon expiration of the warranty period) is then paid within a specified period after the project is completed and accepted by the project owner.

Contract deposits or retention money. A small portion of our projects requires us to provide an upfront contract deposit to guarantee that the job will be completed according to the project timetable. In addition, under certain of our contracts, a portion of the contract value, for example 5%, is withheld by customers as retention money to cover defects in quality of our work and is generally released after thirty to sixty days upon expiration of the warranty period which is typically one year after acceptance of our work by the customer.

Liquidated damages. If a project is delayed through our fault, we may be required to pay liquidated damages, typically up to a maximum of 5% of the contract sum. In case of delay or defective work due to our fault, our customers are entitled to terminate the contract, withhold the remaining balance owed to us and claim damages against us. We have consistently completed contracts on schedule and in compliance with contract specifications, and have not paid any liquidated damages to any of our customers during the Track Record Period.

Accident liability and indemnification. Our contracts typically provide that we are responsible for the safety of our construction sites, dredging vessels and workers and bear all related liability and costs, including those arising from casualties or other accidents. Certain of our contracts additionally provide that we bear all liability for casualties or property damage resulting from our breach of contract or negligence and must indemnify the contractor and project owner for any liabilities and costs arising from our failure to comply with health, safety and environmental rules. We have not borne any accident liability or indemnified or been liable to indemnify any of our customers during the Track Record Period.

BUSINESS

Other requirements. We are responsible for providing dredgers and equipment and are required to maintain various licenses, approvals or permits under these contracts. In addition, we are required to obtain insurance for our employees. Most of these contracts restrict subcontracting without obtaining the prior approval of the customer.

Project Implementation

The implementation process includes devising a detailed dredging plan, procuring materials, delegating work to subcontractors (if any), coordinating with customers, coordinating with our subcontractors (if any) and suppliers, and managing the project.

We appoint a project manager to be responsible for each specific project. We divide a project into distinct components and assign each component to a responsible person who is under the supervision of the project manager based upon the nature of the work. Our project managers typically prepare a detailed plan for the project including:

- a timeline based on the requirements and payment schedule under the contract;
- a labor deployment plan based on the skill level and the estimated number of workers for each part of the project;
- provision for temporary office facilities and public utilities, including water, electricity and telephone;
- detailed plans for each phase of the project; and
- charter, operation, repair and maintenance schedules.

The set-up and relocation costs that we incur at the beginning of a project generally result in a lower profit margin for a project during its early stage.

Subcontractors

We select subcontractors based on a number of strict criteria, including their equipment and experience and our evaluation of their past performance. We maintain a list of preferred subcontractors and review and update the list periodically. Our customers also typically require us to obtain their consent before we subcontract.

We typically replicate most of the terms and conditions of the contracts with our customers (other than pricing terms) in our subcontracts. Our subcontracts are fixed-unit-price contracts. We provide advances to some of our subcontractors. We are required to make monthly payments for 70% to 80% of work done in the previous month, with the remaining balance paid within specific days after the project is completed. Most of these subcontracts do not require subcontractors to provide contract deposits. In case of delay or defective work, we are entitled to terminate the contract, withhold the remaining balance owed to subcontractors and claim damages. We closely supervise the work quality of our subcontractors to ensure their compliance with our standards and requirements.

BUSINESS

None of our Directors or their respective associates or any Shareholder (who to the knowledge of our Directors owns more than 5% of the issued Shares) had any interest in any of our Group's top five subcontractors.

SEASONALITY AND WEATHER

Substantially all of our services are performed over or under water, causing our results to be subject to seasonal variations due to weather conditions. Capital and reclamation work can generally be performed throughout the year. However, in some regions where we operate, such as in parts of northern China, our performance is affected in winter when the harbor is frozen. In addition, bad weather conditions such as typhoons can delay the completion of a project or cause us to incur additional costs.

Generally, in our fixed-price contracts, we bear the risks of increased costs, delays to completion of work, damage to our equipment, and damage to work already completed at a job site due to bad weather conditions. Therefore, as part of any bid for a fixed-price contract, we make allowances, with reference to historical weather data, and also for project downtime due to bad weather conditions. In the event that we experience delays due to bad weather in excess of these allowances, projects may require additional time to complete, which may result in additional costs or decreased gross profit margins. Conversely, favorable weather conditions can accelerate the completion of the project, which may result in cost savings and increased gross profit margins.

QUALITY CONTROL

We emphasize quality control to ensure that our services comply with relevant rules and regulations regarding quality and safety, understanding that our reputation for quality dredging services and our safety record are important considerations of our customers.

We have established quality control procedures for our work. Our project management team is responsible for inspecting the quality of the dredging work. Our project managers perform on-site inspections and supervision on a day-to-day basis to ensure the quality of work. Upon completion and prior to handing over the projects, our customer and the project owner inspect the quality of work and determine whether to accept our work. Under certain of our contracts, a portion of the contract value, for example 5%, is withheld by the customers as retention money to cover any defect in the quality of our work and is generally released after thirty to sixty days upon expiration of the warranty period.

We have established a system with respect to the selection and control of subcontractors to ensure their work quality and compliance with our standards and requirements. We select subcontractors based on a number of criteria including their equipment and experience and our evaluation of their past performance. Our project management team monitors the quality of our subcontractors' work.

To maintain quality control, we also employ strict procedures for the selection, inspection and testing of the equipment, dredgers and other materials that we purchase and lease. Our project management team inspects them to ensure compliance with the contractual specifications before accepting them onsite and approving payment. We reject dredgers, equipment and materials that are below our standards or that do not comply with our specifications.

BUSINESS

SUPPLIERS AND RAW MATERIALS

Fuel is the principal material we use and accounted for 81.2%, 67.1% and 66.0% of the cost of raw materials we purchased in the years ended December 31, 2008, 2009 and 2010. Other materials we purchase include spare parts used in our dredgers, pipes and other equipment. In the years ended December 31, 2008, 2009 and 2010, purchases from our top five material suppliers together accounted for approximately 23.6%, 10.2% and 28.6% of our total operating cost, respectively, while our largest material oil supplier for the same periods accounted for approximately 11.3%, 5.0% and 16.3% of our total operating cost, respectively.

We source substantially all of our materials domestically, and substantially all of our material purchases are denominated in Renminbi. The PRC government sets a guiding price for fuel which provides a certain degree of price stability. In general, we buy materials on an as-needed basis on the open market when we have new projects. We purchase our materials from multiple sources at prevailing market prices, and alternative sources are generally available to enable our business to continue in the event of any interruption from any of present sources. Suppliers typically provide us with a credit term of between one and three months for our material purchases.

Most of our contracts with our customers are fixed-price contracts that typically do not contain material price adjustment provisions, although we are, at times, able to pass on increases in materials costs to our customers when we renew a contract or enter into a new contract. While fuel prices can fluctuate significantly over a relatively short period of time, we have not experienced any significant difficulties over the past few years in obtaining sufficient quantities of fuel at a reasonable cost.

We have begun and intend to continue to limit our exposure to material price volatility by entering into agreements with customers which contain escalation clauses to cover increases in the cost of materials. These escalation clauses require us to bear the increases in costs up to an agreed upon limit and our customers to bear amounts in excess thereof in order to help mitigate the impact on us of significant increases in prices of materials.

None of our Directors or their respective associates or any Shareholder (whom to the knowledge of our Directors owns more than 5% of the issued Shares) had any interest in any of our Group's five largest suppliers.

COMPETITION

Our operations are currently conducted exclusively within the PRC. The dredging industry is capital intensive, requires highly specialized equipment and has significant barriers to entry. According to the Frost & Sullivan Report, China's dredging market is largely dominated by state-owned enterprises which had an estimated market share of 81.9% in 2010 as measured by dredging volume. By comparison, privately owned enterprises, taken together, accounted for an estimated 15.7% of the total dredging volume in China in 2010. However, we believe privately owned enterprises will play an increasingly important role in the dredging market in China in light of the PRC government's recent policy to encourage the private sector to participate in the transportation infrastructure projects according to the Several Opinions on Encouraging and Guiding the Healthy Development of Investments from the Private Sector (國務院關於鼓勵和引導民間投資健康發展的若干意見) issued by the State Council in May 2010.

BUSINESS

In China, the dredging market is relatively closed to foreign investment. According to the Frost & Sullivan Report, we face competition primarily from other domestic privately owned dredging companies. According to the Frost & Sullivan Report, among the privately owned dredging companies in China, our market share as measured by dredging volume was 15.5% in 2010, following by Tianjin G&H Shipping Company Limited (14.5%), Shanghai Darun Port Construction Group Co., Ltd. (12.5%) and Zhejiang Haizhong Zhou Group Co., Ltd. (10.5%).

We target opportunities that are well suited to our capacity and seek contracts compatible with the size of our vessels. We believe that we enjoy competitive strengths in operational efficiency, client relationships and reputation. State-owned dredging companies may have advantages over us in terms of equipment, capacity and capital. However, we believe we have more flexible operating structures that allow us to respond quickly to changing market conditions. Moreover, we believe we compete favorably on price because we have better project management skills and more cost-effective operations. Our average dredger working efficiency rate in 2010 was approximately 83%, which was higher than the industry average of 70%, according to the Frost & Sullivan Report.

PROPERTIES

Leased property

Our corporate headquarters are located in Yancheng City, Jiangsu Province, where we lease an aggregate of approximately 1,630 square meters of office space. We have also leased an office unit in Hong Kong with an area of approximately 100 square meters. In addition, we entered into other tenancy agreements for the use of nine residential units of an aggregate of approximately 972 square meters in Tangshan, Dalian, Yingkou and Tianjin in China. We lease these properties primarily for use as offices and staff quarters.

As of the Latest Practicable Date, except for two leased properties with a leased area of 215 square meters we have been provided with relevant title certificates for these leased properties, but we have not completed registration of these tenancy agreements. Our PRC Legal Advisers have advised us that the failure to register any of our tenancy agreements would not affect its validity or enforceability under applicable PRC laws and regulations, and further advised that if the landlords of the two leased properties for which the title certificates have not been provided to us do not hold the title of the two leased properties, the leasing agreements of the two properties may be null and void. As the premises we lease are primarily used as offices and dormitories and can be relocated without incurring substantial costs, our Directors do not consider the use of these premises or the duration of these leases to have a material adverse effect on our business and operations.

Owned property

We own a residential unit located at Flat A8, 14th Floor, Block A, Elizabeth House No. 250–254, Gloucester Road, Causeway Bay, Hong Kong. This unit is used as a staff quarters and has been valued at approximately HK\$7.0 million as of April 30, 2011, by Jones Lang LaSalle Sallmanns Limited, an independent property valuer. Details of our property interests are set out in the letter and valuation certificates of the property valuation report contained in Appendix IV to this prospectus.

BUSINESS

INTELLECTUAL PROPERTY RIGHTS

We rely on confidentiality agreements and other protections of our technical know-how to maintain our technical advantages in dredging technologies. We have entered into confidentiality agreements with our employees under which they are required to acknowledge that we own the rights to all technology, inventions, trade secrets, works of authorship, developments and other processes generated during their employment with us and relating to our business.

We filed several trademark applications with PRC's Trademark Office of the State Administration for Industry and Commerce and with Hong Kong's Intellectual Property Department. We also filed several copyright recordations over our trademarks and logo devices with the National Copyright Administration of the PRC. In addition, we are the registered owner of certain domain names. Details of our Group's intellectual property rights are set out in "Appendix VII — Statutory and general information — Further information about the business of our Company — intellectual property rights of our Group" of this prospectus.

As at the Latest Practicable Date, we have not been sued for infringement of intellectual property rights by any third party.

INSURANCE

We are required to obtain contractors, all-risk and third-party liability insurance for most of the projects we undertake. Such policies generally cover the entire contract period. We also maintain insurance for our dredgers Kaijin No. 1 and Kaijin No. 3 and other equipment to protect against accident-related risks. As at the Latest Practicable Date, we had not made any material insurance claims. We purchase pension insurance and social insurance for our employees according to the relevant PRC laws and regulations. We maintain insurance coverage in amounts that we believe are consistent with our risk of loss and industry practice.

Consistent with what we believe to be customary practice in the PRC, we do not carry any business interruption insurance, key-man insurance or insurance covering potential environmental damage claims. Such insurance is not mandatory under the laws and regulations of the PRC, and such insurance is either unavailable in the PRC or requires substantial cost.

BUSINESS

EMPLOYEES

As of December 31, 2008, 2009 and 2010, we had 112, 139 and 184 full-time employees, respectively. As of the same dates, there were 19, 19 and 132 crew members supplied by third party vessel owners who chartered their vessels to us. A breakdown of our employees by function is set forth below:

	<u>As of December 31, 2009</u>	<u>As of December 31, 2010</u>
Senior management	5	6
Project engineers and project management personnel	18	43
Financing and administrative personnel	9	18
Research and development consultant	—	1
Crew members and workers ⁽¹⁾	<u>107</u>	<u>116</u>
Total	<u><u>139</u></u>	<u><u>184</u></u>

(1) Does not include crew members supplied by third party vessel owners.

We believe that our success depends heavily upon our employees' provision of consistent, high quality services. In order to attract, retain and develop the knowledge, skill level and quality of our employees, we place a strong emphasis on training and investing in our employees. We provide training periodically to our management staff and workers, including introductory training programs for new employees, and other training programs from general management to specific programs on project management, operations management, soil mechanics and dredging technology. We also provide onboard training programs.

The average turnover rate for our employees, excluding crew members and workers, for each of the years ended December 31, 2008, 2009 and 2010 was 6%, 4% and 3%, respectively. In the past, we have not experienced any difficulty in recruiting crew members and workers.

We enter into individual employment contracts with our employees to cover matters such as wages, employee benefits, safety and sanitary conditions in the workplace, confidentiality obligations for commercial secrets, and grounds for termination. We do not enter into employment contracts with crew members supplied by third party vessel owners together with vessels they chartered to us or our subcontractors. Our PRC Legal Advisers have advised us that those individuals remain employees of the vessel owners or our subcontractors, as the case may be, and that, as a result, we are not required under PRC laws to enter into employment contracts with any such individuals and similarly do not have any obligations or liabilities as their employer.

Pursuant to regulations in each of the local governments in areas where we operate, we make contributions to various employee benefit plans. Employee benefits covered by these arrangements include employee benefits required by PRC laws and regulations as well as incentives for increasing service quality, accommodations, meals, travel allowances, etc. The total amount of contributions we made to employee benefit plans in the years ended December 31, 2008, 2009 and 2010 was RMB0.5 million, RMB1.0 million and RMB1.2 million, respectively.

BUSINESS

As at the Latest Practicable Date, we had no workers' unions. We have not experienced any significant difficulty in recruiting employees nor have we had any significant staff compensation or labor disputes. We consider our relations with our employees to be good.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

The environment and safety related laws and regulations applicable to our operations include the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the Implementation Rules of the Law of the PRC on Prevention and Control of Water Pollution (中華人民共和國水污染防治法實施細則), the Law on Environmental Impact Evaluations of the PRC (中華人民共和國環境影響評估法), the Regulations on the Control over Dumping Wastes into the Sea Waters (中華人民共和國海洋傾廢管理條例), the Implementing Measures of the Regulations on the Control over Dumping Waters into the Sea Waters (中華人民共和國海洋傾廢管理條例實施細則), the Classification and Assessment Procedures of Dredged Materials Dumped into Ocean (疏浚物海洋傾倒分類和評價程序), the PRC Maritime Law (中華人民共和國海商法), the PRC Ship Registration Regulation (中華人民共和國船舶登記條例), the Interim Measures for the Administration of Ships Examination (船舶檢驗工作管理暫行辦法), the Regulations of the PRC for the Examination of Ships and Maritime Facilities (中華人民共和國船舶和海上設施檢驗條例), the PRC Maritime Traffic Safety Law (中華人民共和國海上交通安全法), the Ship Safety Inspection Rules of the PRC (中華人民共和國船舶安全檢查規則), and the Notice on Issuing the Quality Inspection Standards of Dredging and Reclamation (JTJ324-2006) (疏浚與吹填工程質量檢驗標準 (JTJ324-2006)).

Our dredging activities may generate contaminated sediments, and may raise environmental concerns. We are subject to a variety of regulations in the PRC relating to the discharge and disposal of contaminated sediments produced during our dredging processes. We have adopted and implemented various systems and measures to minimize the possibility of environmental contamination, to prevent oil leakage during our operation, and to ensure that our operation activities comply with applicable laws and regulations. Our PRC Operational Entity has adopted pollution prevention measures to prevent vessels at work from causing sea pollution, and to ensure efficient use of water resources in order to preserve and improve the marine ecological environment. These measures set out detailed guidelines on the management of oil pollution prevention equipment, the efficient use of water resources and control over vessel emissions and waste disposal.

Our annual cost for compliance with applicable environmental protection law in the years ended December 31, 2008, 2009 and 2010 was RMB15,000, RMB24,000 and RMB27,000, respectively, which consisted of fees for the renewal of our Certificate of Maritime Ship Oil Pollution Prevention (海上船舶防止油污證書). We did not incur any costs for compliance with applicable environmental protection laws during the Track Record Period other than such renewal fees.

Our PRC Legal Advisers have advised us that we have obtained all requisite approvals, licenses and permits necessary to conduct our business and that we are currently in compliance with all applicable environmental and work safety laws and regulations. According to the compliance certificates issued by the Environmental Protection Bureau of Yandu District in Yancheng City on August 6, 2010, Xiangyu PRC and the PRC Operational Entity had completed all registration procedures in connection with environmental protection and there has been no non-compliance by Xiangyu PRC and the PRC Operational Entity with any environmental protection laws and regulations since their respective

BUSINESS

incorporation dates. Our operations are subject to regulation and periodic monitoring by local environmental and work safety authorities. If we fail to comply with applicable laws and regulations, we may be subject to fines, suspension of business or cessation of operations.

During the Track Record Period, no administrative sanctions or penalties were imposed upon us for the violation of environmental or safety laws or regulations. We have not incurred and do not expect to incur any material costs in connection with the compliance of environmental or safety laws and regulations.

LEGAL PROCEEDINGS

We are currently not a party to any material legal, arbitral or administrative proceedings, and we are not aware of any material threatened legal, arbitral or administrative proceedings against us. We may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business.

CONTRACTUAL ARRANGEMENTS

OVERVIEW

In China, enterprises engaging in dredging business must obtain a general contracting certificate for port and waterway construction (港口與航道工程施工總承包企業資質) or a specialty contracting certificate for waterway construction (航道工程專業承包企業資質). One of the requirements for issuance of either such certificate by the relevant PRC authorities is that the applicant enterprise must be the registered owner of a vessel or vessels with the stipulated functions. Under the relevant PRC laws, the Maritime Safety Administration of the PRC will not register the ownership of a vessel to an enterprise unless at least 50% of its registered capital has been contributed by Chinese investors. As a result, foreign investors cannot own more than a 50% equity interest in any enterprise which owns vessels for conducting dredging business. Our Group has decided that Xiangyu PRC owns 50% of interest in the relevant vessels, being the maximum percentage that a foreign investor may own under PRC laws to register the ownership of the relevant vessels for certain commercial reasons. In addition, our Group intends to participate in some dredging projects which forbid any involvement of foreign-invested companies under PRC laws. Even in certain dredging projects which foreign-invested companies are technically allowed to engage under PRC laws, the foreign-invested companies find it difficult, in common practice, to secure dredging business opportunities. Based on the above reasons, the PRC Operational Entity has not become equity-owned by our Company, but will be controlled by our Company through the Contractual Arrangements. The PRC Operational Entity will continue to engage in its existing business activities and be the registered owner of the requisite vessel(s), details of which are set out in “Facilities and Equipment” in this section.

Our PRC Legal Advisers have advised us that the Contractual Arrangements are narrowly tailored to minimize potential conflicts with the relevant PRC laws and regulations. In order for a company to obtain the requisite certificate for performing waterway construction, the ownership of its dredgers must be registered in its name or jointly with other owner(s). However, the Maritime Safety Administration does not register the ownership of dredgers that are owned by company(ies) of which less than 50% of the registered capital is contributed by Chinese investors. Due to this restriction, as well as restrictions on construction in nature conservation areas and wetlands of international importance by foreign-invested companies, it is not possible for our Group to adopt the equity-held structure to conduct our dredging business. Therefore, our PRC Legal Advisers are of the view that we must adopt the Contractual Arrangements in order to legally conduct our dredging business operations in the PRC.

Our Company has approached the Ministry of Transport and the Maritime Safety Administration of Lian Yun Gang, from whom our PRC Legal Advisers advised us to properly obtain clarification regarding the registration of the ownership of vessels with foreign investment. We obtained written confirmation on requirements for the registration of the ownership of a vessel with foreign investment, which confirmed that (i) the Maritime Safety Administration would not register the ownership of a vessel or grant the Certificate of Nationality of Ship for a vessel that is owned by any enterprise with less than 50% of its registered capital contributed by Chinese investor(s) and (ii) a company may only apply for a specialty contracting certificate for waterway construction for the purpose of engaging in dredging business after it has obtained the Certificate of Nationality of Ship for its vessel and provided that other requirements for issuing such certificate are met.

CONTRACTUAL ARRANGEMENTS

Pursuant to the Administrative License Law of the PRC (中華人民共和國行政許可法) and other applicable laws and regulations, we were required to obtain the approval of the Commerce Bureau of Yancheng City for the establishment of Xiangyu PRC as a foreign-invested entity and complete a foreign exchange registration process with the Jiangsu Branch of SAFE for Mr. Liu's overseas investment under Circular 75.

In connection with the application process for establishing Xiangyu PRC as a wholly foreign-owned enterprise, we disclosed the relevant details of the Contractual Arrangements, our offshore structure and the business scope of Xiangyu PRC in the feasibility study report that we were required to submit to the Commerce Bureau of Yancheng City for examination and approval. Our Group successfully obtained the approval from the Commerce Bureau of Yancheng City regarding the establishment of Xiangyu PRC after the bureau examined the application documents, including the feasibility study report, and issued us a Certificate of Approval. Both our PRC Legal Advisers and the Sole Sponsor's PRC legal advisers, Commerce & Finance Law Offices, advised us that pursuant to the Administrative Law of the PRC, the Commerce Bureau of Yancheng City is the competent authority to approve the establishment of Xiangyu PRC.

In addition, we also disclosed relevant details of the Contractual Arrangements in the business plan that we were required to submit to the Jiangsu Branch of SAFE for the foreign exchange registration of overseas investment conducted by Mr. Liu under Circular 75. In particular, the business plan disclosed that: (i) Mr. Liu indirectly owns all of the issued shares of and equity interest in Power Wealth HK, a company incorporated in Hong Kong; (ii) Xiangyu PRC was established by Mr. Liu through the domestic investment of Power Wealth HK; and (iii) Mr. Liu plans to control the PRC Operational Entity through the Contractual Arrangements. Mr. Liu successfully completed the foreign exchange registration for his overseas investment with Jiangsu Branch of SAFE after the examination of the application documents, including the business plan, by Jiangsu Branch of SAFE. Both our PRC Legal Advisers and the Sole Sponsor's PRC legal advisers advised that pursuant to the Administrative Law of the PRC, the Jiangsu Branch of SAFE is the competent authority to register the overseas investment conducted by Mr. Liu. The Yancheng Sub-branch of SAFE issued a foreign exchange registration certificate to Xiangyu PRC, which could only be done after the relevant authorities determined that Mr. Liu had completed the foreign exchange registration of his overseas investment under Circular 75. The Directors confirm that they have not received and are not aware of any objections to the issuance of this certificate.

In addition, to the best knowledge of our PRC Legal Advisers and the Sole Sponsor's PRC legal advisers, if the Commerce Bureau of Yancheng City had any doubt as to the establishment of Xiangyu PRC, or the Jiangsu Branch of SAFE had any doubt as to the registration of the overseas investment of Mr. Liu, they would seek advice from their respective higher authorities. In addition, the Commerce Bureau of Yancheng City and the Jiangsu Branch of SAFE would perform the relevant internal procedures with their respective higher authorities during the approval/registration process. A duplicate copy of the Certificate of Approval issued by the Commerce Bureau of Yancheng City regarding the establishment of Xiangyu PRC has been submitted to the Commerce Bureau of Jiangsu Province. Our PRC Legal Advisers and the Sole Sponsor's PRC legal advisers are of the view that the approval of the establishment of Xiangyu PRC by the Commerce Bureau of Yancheng City and the registration of the overseas investment of Mr. Liu by the Jiangsu Branch of SAFE should not be subject to any challenge from the relevant higher authorities, the Commerce Bureau of Yancheng City is the competent authority to approve the establishment of Xiangyu PRC, and such establishment does not require any approval and/or confirmation from the Ministry of Commerce.

CONTRACTUAL ARRANGEMENTS

According to the advice of our PRC Legal Advisers and the Sole Sponsor's PRC legal advisers, if the shareholders of an offshore special purpose company propose to acquire any equity interest in a PRC domestic company by way of a share swap with the purpose of listing the interests of such PRC domestic company on an overseas stock exchange, the CSRC's approval should be obtained. However, our Group did not and will not adopt such a structure for the Listing. For this reason, both our PRC Legal Advisers and the Sole Sponsor's PRC legal advisers are of the view that our Group does not need to approach the CSRC for the approval of our Company's Listing on the Stock Exchange and, in addition, the CSRC is not the appropriate authority to render advice on the legality of the Contractual Arrangements.

Both our PRC Legal Advisers and the Sole Sponsor's PRC legal advisers are of the view that the Ministry of Construction, the Maritime Safety Administration, the State Administration of Taxation and the CSRC are not the appropriate authorities to render advice on the legality of the Contractual Arrangements.

Our PRC Legal Advisers have advised us that (i) the establishment of Xiangyu PRC by Mr. Liu through the domestic investment of Power Wealth HK, an offshore company controlled by Mr. Liu, and (ii) the control of the PRC Operational Entity by Xiangyu PRC through the Contractual Arrangements have been approved by the relevant competent authorities mentioned above and that the relevant authorities did not take the view that the New M&A Rule shall be applicable to our Group.

Our PRC Legal Advisers have further advised us that the New M&A Rule, which governs, among other things, the merger with or acquisition of equity interests or assets of PRC domestic enterprises by domestic persons or enterprises through his or its foreign companies, does not apply to the Contractual Arrangements because (i) the Contractual Arrangements, as a whole, do not constitute a merger or acquisition, and (ii) Xiangyu PRC, which is controlled by Mr. Liu, is not a foreign company or a foreign investment-holding company, *i.e.*, a company the nature or purpose of which is foreign investment.

Pursuant to Article 2 of the New M&A Rule, an acquisition under the New M&A Rule can be either an equity acquisition or an asset acquisition. An equity acquisition is an acquisition of equity interest in a PRC domestic company or the subscription of registered capital of a PRC domestic company by foreign investors for the purpose of converting such PRC domestic company into a foreign-invested enterprise. An asset acquisition is the acquisition of a PRC domestic company's assets (i) by a foreign-invested enterprise the purpose of which is to control such assets and use them in business operations, or (ii) by foreign investors, by contract, in order to establish a foreign-invested enterprise for the purpose of conducting business operations.

Article 55 of the New M&A Rule provides that if a foreign investment-holding company established by foreign investors in the PRC intends to acquire the equity interests of a PRC domestic company, the New M&A Rule shall apply to such transaction. However, if a foreign investor intends to merge a PRC domestic company into a foreign-invested enterprise or acquire equity interests in a PRC domestic company through a foreign-invested enterprise, then such transaction shall be governed by the laws and regulations relating to the mergers of foreign-invested enterprises as well as provisions governing investments of foreign-invested companies in the PRC, and only matters not covered by such laws or regulations shall be governed by the New M&A Rule.

CONTRACTUAL ARRANGEMENTS

Based on the foregoing provisions in the New M&A Rule, our PRC Legal Advisers and the Sole Sponsor's legal advisers are of the view that if a foreign-invested enterprise, which is not a foreign investment-holding company, proposes to acquire equity interests in a PRC domestic company, then such acquisition shall not be deemed to be an acquisition governed by the New M&A Rule and instead, the Tentative Provisions governing the Investment of Foreign-invested Enterprises within the PRC 《關於外商投資企業境內投資的暫行規定》 shall apply to such transaction. Therefore, since Xiangyu PRC is a foreign-invested enterprise which owns vessels and provides dredging-related services, and is not a foreign-investment holding company, our PRC Legal Advisers and the Sole Sponsor's legal advisers have advised us that the acquisition of the equity interests in the PRC Operational Entity by Xiangyu PRC (if so acquired) should be governed by the Tentative Provisions Governing the Investment of Foreign-invested Enterprises within the PRC, and not by the New M&A Rule.

Article 11 of the New M&A Rule provides as follows: (i) if a PRC domestic enterprises or domestic natural persons establish or control an offshore company, and such offshore company proposes to merge with or acquire equity interests in or assets of a PRC domestic company with which such domestic enterprises or natural persons have a connected relationship, then such transaction requires the prior approval of MOFCOM; and (ii) the parties involved are prohibited from circumventing the aforesaid requirement by way of domestic investment by foreign-invested enterprises or any other methods. However, our PRC Legal Advisers and the Sole Sponsor's PRC legal advisers have advised us that the control of the PRC Operational Entity by Xiangyu PRC through the Contractual Arrangements does not involve or constitute an equity acquisition or an assets acquisition under Article 11 of New M&A Rule.

The New M&A Rule and other relevant PRC laws and regulations do not define or explain the terms "circumvention" or "any other methods" used in Article 11. However, our PRC Legal Advisers and the Sole Sponsor's PRC legal advisers are of the view that a reasonable approach shall be adopted in understanding the meaning of this Article. Both PRC legal advisers believe that "circumvention" can be understood to mean a scenario in which, notwithstanding their knowledge of the effectiveness of the New M&A Rule, domestic enterprises or natural persons intentionally establish a foreign-invested enterprise for the sole purpose of merging with or acquiring the equity interests or assets of a PRC domestic company with which the domestic enterprises or natural persons have a connected relationship. In addition, both PRC legal advisers have advised us that "any other methods" should be reasonably construed to mean any other methods of similar nature or having a similar effect as the methods set out in the first part of Article 11.

Since the purpose of setting up Xiangyu PRC, a foreign-invested enterprise, is to own dredgers and provide dredging-related services, and not to merge with or acquire equity interests in or assets of the PRC Operational Entity, both PRC legal advisers are of the view that the establishment of Xiangyu PRC does not fall within "other methods" employed to circumvent the approval requirement under the New M&A Rule.

Pursuant to the Contractual Arrangements, we conduct our business operations indirectly in the PRC through the PRC Operational Entity by way of the Contractual Arrangements. Although our Group does not have any direct or indirect equity interest in the PRC Operational Entity, we manage to maintain effective control over the financial and operational policies of the PRC Operational Entity and are entitled to the economic benefits derived from the operations of the PRC Operational Entity through the Contractual Arrangements.

CONTRACTUAL ARRANGEMENTS

Under the Contractual Arrangements, the following contracts were entered into by the parties concerned:

(i) Composite Services Agreement

On April 19, 2011, Xiangyu PRC and the PRC Operational Entity entered into an exclusive composite services agreement (“**Composite Services Agreement**”) pursuant to which the PRC Operational Entity has agreed to engage Xiangyu PRC on an exclusive basis to provide consultation and other ancillary services, including enterprise management and consultancy services, dredging project management and consultancy services.

In consideration for the provision of such services by Xiangyu PRC, the PRC Operational Entity agreed to pay consultation service fees to Xiangyu PRC on an annual basis in arrears. The consultation service fees payable to Xiangyu PRC by the PRC Operational Entity are equivalent to the total audited revenue less all the related costs of sales, expenses, taxes and statutory reserves of the PRC Operational Entity.

Pursuant to the Composite Services Agreement, the PRC Operational Entity may not, among other restrictions or obligations, without the prior written consent of Xiangyu PRC: (a) dispose of or pledge its material assets, operation rights and/or business; (b) alter its registered capital and/or issue new shares to existing shareholders or any third parties; (c) alter its scope of business; (d) declare dividends (including any undistributed attributable profit payable to its equity shareholders prior to the Composite Services Agreement becoming effective); (e) remove or change any of its director and senior management members; (f) borrow or lend money or provide guarantee; (g) alter its articles of association; (h) enter into any partnership agreements or other arrangements with third parties for profits or interests sharing or transfer; (i) enter into any material contracts over a certain threshold amount other than those in its ordinary course of business; and (j) make investment or engage in any merger or acquisition transactions.

Pursuant to the Composite Services Agreement, Xiangyu PRC is required to pay to the PRC Operational Entity surety money for the performance of its services, which surety money shall be repaid to Xiangyu PRC after the termination or expiry of the Composite Services Agreement. As a security for the payment of the consultation service fees and repayment of the surety money by the PRC Operational Entity to Xiangyu PRC under the Composite Services Agreement, the PRC Operational Entity has agreed to pledge to Xiangyu PRC its interest in the three vessels owned or (as the case may be) jointly-owned by it or to be owned or to be jointly owned by it during the term of the Composite Services Agreement. The parties further agreed that when the PRC Operational Entity needs additional funds for capital expenditure or in connection with projects to be entered into between the PRC Operational Entity and its customers, such as funds for purchasing or leasing a vessel or other equipment, then, subject to its availability of funds, Xiangyu PRC will provide the necessary funds to the PRC Operational Entity for these purposes.

The term of the Composite Services Agreement commenced on April 19, 2011 and will expire on April 18, 2026 and is renewable at the election of Xiangyu PRC for successive terms of 10 years each, until termination by Xiangyu PRC with a 30-day prior notice to the PRC Operational Entity. Unless otherwise required by applicable laws, the PRC Operational Entity shall have no right to terminate the Composite Services Agreement in any event. Unless it obtains the prior written consent of Xiangyu PRC, the PRC Operational Entity shall not be entitled to transfer

CONTRACTUAL ARRANGEMENTS

any of its rights and/or obligations under the Composite Services Agreement to third parties. Xiangyu PRC, however, shall have right to transfer its rights and/or obligations thereunder to third parties.

Pursuant to the Composite Services Agreement, Xiangyu PRC has been engaged by the PRC Operational Entity to provide management and consultation services. In return, Xiangyu PRC will be entitled to the consultation service fees payable by the PRC Operational Entity. The Directors believe that such arrangements will ensure that the economic benefits generated from the operations of the PRC Operational Entity will flow to Xiangyu PRC and hence, to our Group as a whole.

(ii) Option Agreement

On April 19, 2011, Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou entered into an exclusive option agreement (“**Option Agreement**”) whereby Mr. Liu and Ms. Zhou irrevocably granted to Xiangyu PRC an option to acquire, directly or through one or more nominees, the entire equity interest held by Mr. Liu and Ms. Zhou in the PRC Operational Entity at a price equivalent to the fair market value of such equity interest or, where applicable, the minimum amount as may be permitted by the applicable PRC laws. Pursuant to the Option Agreement, Mr. Liu and Ms. Zhou have agreed to refund such purchase price to Xiangyu PRC without consideration. Subject to compliance with PRC laws, Xiangyu PRC may exercise the options at any time, in respect of all or part of the equity interest and in any manner in its sole discretion.

Pursuant to the Option Agreement, each of the PRC Operational Entity, Mr. Liu and/or Ms. Zhou has undertaken to perform certain acts or refrain from performing certain other acts unless it obtains the prior written consent of Xiangyu PRC, including but not limited to the following matters:

- (a) the PRC Operational Entity shall not alter its constitutional documents or its registered capital;
- (b) the PRC Operational Entity, Mr. Liu or Ms. Zhou shall not incur any indebtedness (other than those incurred in the ordinary course of business and disclosed to and approved by Xiangyu PRC in advance);
- (c) the PRC Operational Entity shall not provide any loan or guarantee to any third parties;
- (d) the PRC Operational Entity shall not dispose of or create encumbrances over any part of its assets, business or revenue and Mr. Liu and Ms. Zhou shall not dispose of or create encumbrances over the equity interest held by them in the PRC Operational Entity, except the security created under the Equity Pledge Agreement (as defined below);
- (e) the PRC Operational Entity shall not enter into any material contracts over a certain threshold amount other than in its ordinary course of business;

CONTRACTUAL ARRANGEMENTS

- (f) the PRC Operational Entity shall not distribute any dividends (including any undistributed attributable profit payable to the equity shareholders prior to the Option Agreement becoming effective) to its shareholders and Mr. Liu and Ms. Zhou undertake that such undistributed profit shall be retained in the PRC Operational Entity as its capital and/or reserved fund and shall give up and assign or transfer to Xiangyu PRC any dividend declared and distributed at any time thereafter and payable to them by virtue of their holding of the equity interest in the PRC Operational Entity;
- (g) the PRC Operational Entity shall not make investment or engage in any merger or acquisition transactions; and
- (h) at the request of Xiangyu PRC, Mr. Liu and Ms. Zhou shall appoint such persons nominated by Xiangyu PRC to act as the directors, supervisors and senior management members of the PRC Operational Entity.

The Option Agreement became effective on April 19, 2011 and will expire on the date on which all the equity interests held by Mr. Liu and Ms. Zhou in the PRC Operational Entity are transferred to Xiangyu PRC and/or its nominee(s). Unless otherwise required by applicable laws, Mr. Liu, Ms. Zhou and/or the PRC Operational Entity shall have no right to terminate the Option Agreement in any event. Without the prior written consent of Xiangyu PRC, Mr. Liu, Ms. Zhou and/or the PRC Operational Entity shall not be entitled to transfer any of its rights and/or obligations under the Option Agreement to third parties. However, Xiangyu PRC shall have right to transfer its rights and/or obligations thereunder to third parties.

(iii) Proxy Agreement

On April 19, 2011, Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou entered into a proxy agreement (“**Proxy Agreement**”) pursuant to which Mr. Liu and Ms. Zhou unconditionally and irrevocably undertook to authorize such person(s) as designated by Xiangyu PRC (being PRC citizens) to exercise shareholders’ rights in relation to appointment of proxy and exercise of voting rights in the PRC Operational Entity under the articles of association of the PRC Operational Entity and the applicable PRC laws. Such shareholders’ rights include but are not limited to (i) calling and attending the shareholders’ meetings of the PRC Operational Entity; (ii) exercising voting rights on all matters requiring shareholders’ consideration and approval (including but not limited to the nomination and removal of the directors and senior management members of the PRC Operational Entity whose appointment and removal shall be determined by the shareholders and subject to recommendation for such nomination and removal by our Group as approved by the majority of our independent non-executive Directors) and (iii) other shareholders’ voting rights to be exercised in accordance with the articles of association of the PRC Operational Entity.

Before our Group acquires the entire equity interest of the PRC Operational Entity as contemplated under the Option Agreement, our Group can, by virtue of the Proxy Agreement, exercise the voting rights of shareholders as if we were the ultimate beneficial owner of the PRC Operational Entity.

CONTRACTUAL ARRANGEMENTS

The term of the Proxy Agreement commenced on April 19, 2011 and will expire on April 18, 2026, and will be renewable at the election of Xiangyu PRC for successive terms of 10 years each, until termination by Xiangyu PRC with 30-day prior notice to the PRC Operational Entity. Unless otherwise required by applicable laws, Mr. Liu, Ms. Zhou and/or the PRC Operational Entity shall have no right to terminate the Proxy Agreement in any event. Mr. Liu, Ms. Zhou and/or the PRC Operational Entity shall not be entitled to transfer any of its rights and/or obligations under the Proxy Agreement to third parties without the prior written consent of Xiangyu PRC. However, Xiangyu PRC shall have the right to transfer its rights and/or obligations thereunder to third parties.

(iv) Equity Pledge Agreement

On April 19, 2011, Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou entered into an equity pledge agreement (“**Equity Pledge Agreement**”), pursuant to which Mr. Liu and Ms. Zhou granted continuing first priority security interests over their respective equity interests in the PRC Operational Entity to Xiangyu PRC for guaranteeing the performance of the Composite Services Agreement, the Option Agreement and the Proxy Agreement and the repayment of the secured indebtedness owed to Xiangyu PRC by the PRC Operational Entity, Mr. Liu and Ms. Zhou (as the case may be). Mr. Liu and Ms. Zhou also agreed to pledge their other properties for securing their performance of their obligations under the Contractual Arrangements in the event of a significant reduction in the value of the equity interest of the PRC Operational Entity which prejudices the interest of Xiangyu PRC.

Pursuant to the Equity Pledge Agreement, the PRC Operational Entity shall not alter its current shareholding structure and/or its nature or scope of business without the prior written consent of Xiangyu PRC, and Mr. Liu and Ms. Zhou shall not allow the PRC Operational Entity to transfer or dispose of its assets or pledge or transfer their respective equity interests in the PRC Operational Entity in favor of or to other third parties. Xiangyu PRC is entitled to receive all dividends derived from the pledged equity interests. In addition, Xiangyu PRC is entitled to demand repayment of the secured indebtedness and/or to exercise its rights to sell the pledged equity interests upon occurrence of certain events of default, including but not limited to (i) non-performance or breach of any of the Composite Services Agreement, the Option Agreement and the Proxy Agreement; or (ii) failure by the PRC Operational Entity, Mr. Liu or Ms. Zhou (as the case may be) to repay other debts when they become due.

The Equity Pledge Agreement became effective on the date of its execution (subject to the registration of the pledge in the register of members of the PRC Operational Entity and with the relevant office of the State Administration for Industry and Commerce of the PRC in accordance with applicable PRC laws) and shall terminate upon the performance by the PRC Operational Entity, Mr. Liu and Ms. Zhou (as the case may be) in full of all obligations under the Composite Services Agreement, the Option Agreement and the Proxy Agreement and repayment of the secured indebtedness. Mr. Liu, Ms. Zhou and/or the PRC Operational Entity shall not be entitled to transfer any of its rights and/or obligations under the Equity Pledge Agreement to third parties without the prior written consent of Xiangyu PRC. However, Xiangyu PRC shall have right to transfer its rights thereunder to third parties.

CONTRACTUAL ARRANGEMENTS

(v) Vessel Pledge Agreements

The PRC Operational Entity and Xiangyu PRC have entered into three vessel pledge agreements (“**Vessel Pledge Agreements**”), each dated April 19, 2011, pursuant to which the PRC Operational Entity has pledged in favor of Xiangyu PRC (a) its entire interest in the dredger “Zhuayang No. 101”; (b) its 50% interest in the dredger “Kaijin No. 1” and (c) its 50% interest in the dredger “Kaijin No. 3”, as security for the payment of the consultation service fees and repayment of the surety money (as well as related interest and expenses, etc.) then owing by the PRC Operational Entity to Xiangyu PRC under the Composite Services Agreement.

Pursuant to the Vessel Pledge Agreements, the PRC Operational Entity is entitled to use and operate the pledged vessels, provided that such use shall comply with the applicable laws and industrial practices, and the PRC Operational Entity shall be responsible for the payment of all expenses, costs, taxes, compensation related to the operation and maintenance of the pledged vessels. The PRC Operational Entity shall obtain (and maintain the legality and validity of) all permits and qualifications of the pledged vessels and shall maintain the pledged vessels and their equipment and components in good and safe condition. The PRC Operational Entity shall not alter the structure or major equipment of the pledged vessels, pledge or dispose of its interests in the pledged vessels or any part thereof or lease the pledged vessels to third parties, each without the prior written consent of Xiangyu PRC. Xiangyu PRC is entitled to exercise its rights to demand payment of outstanding consultation service fees and repayment of the surety money under the Composite Services Agreement and/or to sell the pledged vessels upon the occurrence of certain events of default, including but not limited to non payment of the secured indebtedness or non-performance of the Composite Services Agreement.

Each of the Vessel Pledge Agreements became effective on the date of its execution and shall terminate upon payment or repayment in full of the consultation service fees, surety money and all other related expenses under the Composite Services Agreement. The PRC Operational Entity shall not be entitled to transfer any of its rights and/or obligations under the Vessel Pledge Agreements to third parties without the prior written consent of Xiangyu PRC. However, Xiangyu PRC shall have right to transfer its rights thereunder to third parties.

After having been advised by our PRC Legal Advisers, our Directors are of the view that the Equity Pledge Agreement, Vessel Pledge Agreements, Proxy Agreement, Option Agreement and Composite Services Agreement under the Contractual Arrangements are legally binding upon the parties thereto, and our Company can effectively control the PRC Operational Entity with respect to all of its financial and operational policies, including but not limited to the economic benefits through transfer of its annual revenue, daily business operations and management and accounting policies, through the Contractual Arrangements.

In addition, our Group intends to participate in certain dredging projects which forbid any involvement of foreign-invested companies under PRC laws, for example, the Yancheng City project, which includes construction work in a wetland of international importance. According to the Catalogue for the Guidance of Foreign Investment Industries (Amended in 2007) (外商投資產業指導目錄(2007年修訂)), construction in and management of nature conservation areas and wetlands of international importance is categorized as a prohibited foreign investment industry in which a foreign-invested company may not be engaged. In the event that dredging projects are

CONTRACTUAL ARRANGEMENTS

carried out in such areas and we wish to participate in them, such as in the case of the Yancheng City project, we may only do so through the PRC Operational Entity, which is a PRC domestic company. In addition, even with respect to certain dredging projects in which foreign-invested companies are technically allowed to engage under PRC laws, foreign-invested companies find it difficult, in common practice, to secure such dredging business opportunities. These may include, for example, projects of which a PRC military institution, such as the Qingdao Coastal Defense Bureau, is the project owner. For the above reasons, we take the view that the PRC Operational Entity should remain as a domestic company in the PRC.

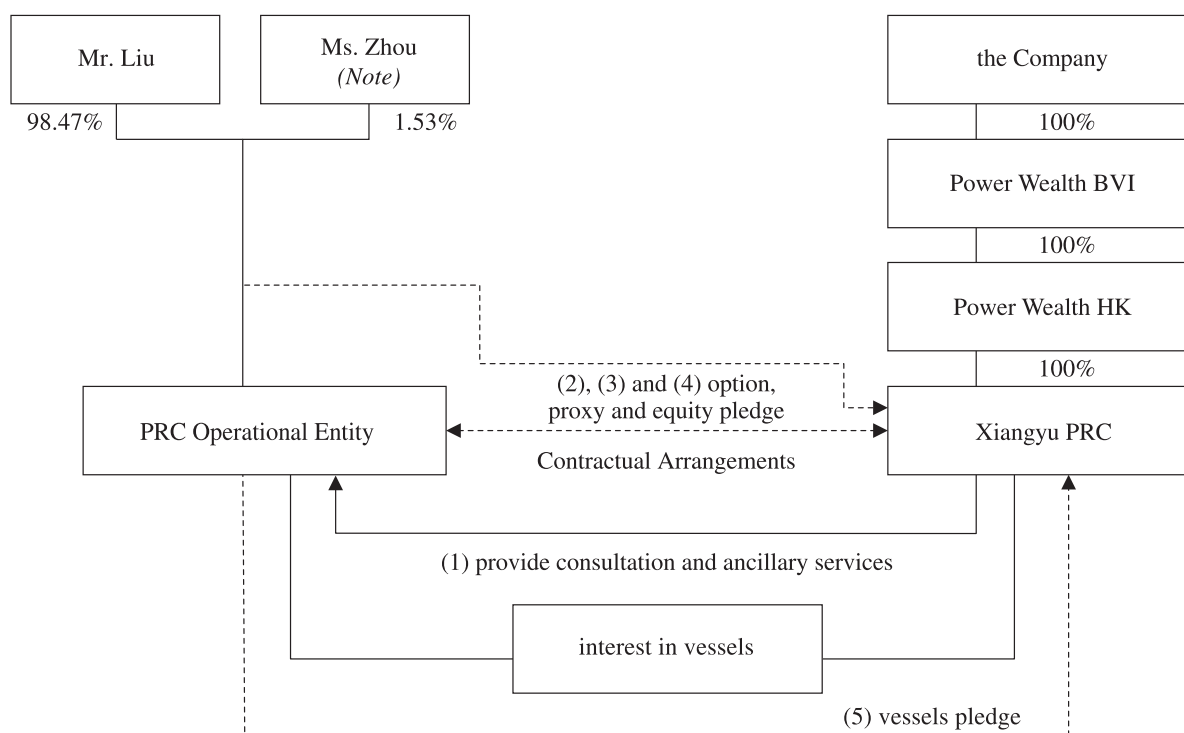
Our PRC Legal Advisers have advised us that after Listing, the applicable PRC laws currently in effect would not disqualify our Group from approaching and participating in dredging projects which forbid any involvement of foreign-invested companies so long as the PRC Operational Entity remains a PRC domestic company, notwithstanding that pursuant to HKFRS 3 Business Combination, the PRC Operational Entity is accounted for as a subsidiary of our Company on a merger basis.

Both our PRC Legal Advisers and the Sole Sponsor's PRC legal advisers opined that the adoption of the Contractual Arrangements is not in violation of any laws of the PRC or regulations promulgated by the Maritime Safety Administration and the Ministry of Construction. They further advised us that the adoption of the Contractual Arrangements would not have any adverse legal impact on the ownership of the vessels jointly owned by Xiangyu PRC and the PRC Operational Entity, and would therefore not result in the non-compliance of the minimum 50%-ownership requirement of the joint-owned vessels by Chinese investor (*i.e.*, in this case, the PRC Operational Entity), nor adversely affect the validity of the contracting certificate.

Based on the above, our PRC Legal Advisers and the Sole Sponsor's PRC legal advisers are of the view that the PRC authorities shall not have any legal basis to revoke or challenge the registration of the ownership of the vessels under the name of Xiangyu PRC and the PRC Operational Entity or the issuance of the contracting certificate, in each case due to the adoption of the Contractual Arrangements by our Group.

CONTRACTUAL ARRANGEMENTS

The Contractual Arrangements effectively transfer the economic benefits of the PRC Operational Entity and pass the risks associated therewith to our Group, as illustrated by the following flowchart and related explanation:



1. PRC Operational Entity shall pay consultation service fees to Xiangyu PRC (being its total audited revenue less related costs, as well as taxes and statutory reserve) under the Composite Services Agreement.
2. PRC Operational Entity's shareholders granted an option to Xiangyu PRC to acquire the entire equity interest in the PRC Operational Entity, and any dividend which may be declared and payable to them by the PRC Operational Entity shall be assigned and transferred to Xiangyu PRC under the Option Agreement.
3. The shareholders of the PRC Operational Entity authorized person(s) designated by Xiangyu PRC as proxy(ies) to attend and vote in shareholders' meetings of the PRC Operational Entity under the Proxy Agreement.
4. The shareholders of the PRC Operational Entity pledged the entire equity interest in the PRC Operational Entity to Xiangyu PRC under the Equity Pledge Agreement.
5. The PRC Operational Entity pledged its entire interest in three dredgers (*i.e.*, 100% interest in the dredger "Zhuayang No. 101 and 50% interest in each of the dredgers "Kaijin No. 1" and "Kaijin No. 3") to Xiangyu PRC under the Vessel Pledge Agreements.

Note: Since May 4, 2009 (being the date of the agreement for the transfer of 600,000 shares of the PRC Operational Entity from Mr. Sun Nianjiang to Ms. Zhou) and up to the Latest Practicable Date, Mr. Zhou has been holding the 1.53% registered capital in PRC Operational Entity as trustee/nominee for the benefit of Mr. Liu.

CONTRACTUAL ARRANGEMENTS

In order to ensure that the PRC Operational Entity is managed and operated in accordance with our Group's instructions and to prevent the misappropriation of assets or funds by the ultimate beneficial owner thereof (*i.e.*, Mr. Liu), the nomination of all of the directors, senior management and financial controller of the PRC Operational Entity shall be recommended by our Group, which recommendation for appointment and removal shall be subject to approval by the majority of the independent non-executive Directors. In addition, Mr. Dong (or such other person(s) nominated by our Group in the event that Mr. Dong fails to exercise such rights), as designee of Xiangyu PRC, has been appointed as proxy of Mr. Liu and Ms. Zhou to exercise the shareholders' rights in the PRC Operational Entity (including the rights to appoint and remove directors of the board of the PRC Operational Entity, whose appointment and/or removal shall follow our Group's recommendation as mentioned above).

Provision of funds to the PRC Operational Entity

The PRC Operational Entity's operations generate sufficient working capital to conduct its business operation. Under the Composite Services Agreement, Xiangyu PRC is required to pay to the PRC Operational Entity surety money for performance of its services. In addition, Xiangyu PRC has agreed to provide necessary funds to the PRC Operational Entity in the event that this entity needs additional funds for capital expenditures, such as for the purchase or lease of a dredging vessel. The procedures that our Group must go through to inject capital to the PRC Operational Entity through the Contractual Arrangements are as follows.

Our Company may inject capital into Xiangyu PRC by increasing Xiangyu PRC's registered capital. Such capital would be contributed by Power Wealth HK, a wholly owned subsidiary of our Company and the sole shareholder of Xiangyu PRC. Xiangyu PRC would then need to obtain approval for such increase in registered capital from the relevant office of the Ministry of Commerce of the PRC within 90 days from the submission date of the application and complete the alterations registration with the relevant office of the State Administration for Industry and Commerce of the PRC within 20 days of the submission date of the alteration registration application.

Under PRC laws, Xiangyu PRC shall apply to the relevant office of SAFE to exchange the foreign currency injected by Power Wealth HK into Renminbi for the purpose of operating its business within its business scope as stipulated in its business license. Since Xiangyu PRC's business scope includes providing consultancy, enterprise management, dredging project management and ancillary services to the PRC Operational Entity, Xiangyu PRC is permitted to pay the surety money in the form of Renminbi to the PRC Operational Entity pursuant to the Composite Services Agreement.

Given that Mr. Liu has completed the foreign exchange registration with the Jiangsu Branch of SAFE as required under the Circular 75, and Xiangyu PRC has obtained its foreign exchange registration certificate from the Yancheng City branch of SAFE, our Company, our PRC Legal Advisers have advised us that they do not foresee any legal obstacles for Xiangyu PRC to obtain the requisite foreign exchange approval from the relevant office of SAFE.

CONTRACTUAL ARRANGEMENTS

Manner of settlement of disputes which may arise from the Contractual Arrangements

All the agreements which constitute the Contractual Arrangements provide for dispute resolution by way of arbitration by the arbitral body of the China International Economic and Trade Arbitration Commission in accordance with its then prevailing arbitration rules. These agreements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of the PRC Operational Entity, injunctive relief and/or winding up of the PRC Operational Entity. In addition, these agreements also contain provisions to the effect that courts of competent jurisdiction (as applicable, courts of (i) Hong Kong, (ii) the place of incorporation of our Company (*i.e.*, Cayman Islands); and (iii) the place of incorporation of the PRC Operational Entity or, if different, the place(s) where our Company's or the PRC Operational Entity's principal assets are located) shall be empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal.

However, according to the PRC Legal Advisers to our Company, under PRC laws, certain of these contractual terms may not be enforceable. For instance, under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order for the purpose of protecting assets of or equity interest in the PRC Operational Entity in case of disputes. Therefore, such remedies may not be available to our Group, notwithstanding the relevant contractual provisions contained in the agreements. PRC laws do allow an arbitral body to award the transfer of assets of or equity interest in the PRC Operational Entity in favor of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts or judicial authorities in the PRC generally would not award injunctive relief or the winding-up of the PRC Operational Entity as interim remedies for the purpose of protecting assets or shares in favour of any aggrieved party. Our PRC Legal Advisers also maintain the reservation that even though the Contractual Arrangements provide that overseas courts are given jurisdiction to grant and/or enforce interim remedies or in support of arbitration, such interim remedies (even if so granted by overseas courts in favour of an aggrieved party) may not be recognized or enforced by the PRC courts. In the event that Mr. Liu, Ms. Zhou and/or the PRC Operational Entity breach any of the agreements constituting the Contractual Arrangements and we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over the PRC Operational Entity, and our ability to conduct our business could be materially adversely affected.

We believe that settling disputes that arise from the Contractual Arrangements by way of litigation is less preferable than arbitration because litigation in the PRC may be inefficient and protracted.

The PRC Operational Entity's dredgers are its most valuable assets and are crucial for its operations. In order to minimize the impact of any breach of the Contractual Arrangements by Mr. Liu, Ms. Zhou and/or the PRC Operational Entity on our Group, the PRC Operational Entity pledged its interest in the dredgers to Xiangyu PRC. Such pledge is intended to secure the performance of the PRC Operational Entity, Mr. Liu and Ms. Zhou of their respective obligations under the Contractual Arrangements. The Vessel Pledge Agreements provide that the PRC Operational Entity may not dispose of its interest in the relevant dredgers without the prior written consent from Xiangyu PRC.

CONTRACTUAL ARRANGEMENTS

Our PRC Legal Advisers have advised us that, in the event that Mr. Liu, Ms. Zhou and/or the PRC Operational Entity breach any of its/his/her/their obligations under the Contractual Arrangements and cause a loss to Xiangyu PRC, it is legal for Xiangyu PRC to exercise its rights under the Equity Pledge Agreement to designate a PRC citizen or a PRC domestic company to acquire the entire equity interest in the PRC Operational Entity, or to directly acquire the entire equity interest in the PRC Operational Entity if the then applicable PRC laws do not restrict the registration of vessels owned by a foreign-invested company or construction within designated conservation area by a foreign-invested company.

In addition, given the foreign ownership restrictions on the PRC Operational Entity for the purpose of engaging in the PRC dredging business as set forth above, our Group shall, through Xiangyu PRC or its nominee(s) (being PRC citizen(s) or entity(ies) set up in the PRC with registered capital registered under name(s) of Chinese citizen(s)), exercise its option under the Option Agreement to acquire all of the equity interests in the PRC Operational Entity (if our Group shall determine to have the options so exercised) and/or shall, through Xiangyu PRC, enforce the security interests over the equity interest in the PRC Operational Entity under the Equity Pledge Agreement (upon the security interest thereon being so enforceable).

According to the Equity Pledge Agreement, if Mr. Liu, Ms. Zhou and/or the PRC Operational Entity fail to perform their respective obligations under the Equity Pledge Agreement, Xiangyu PRC, as a pledgee under the Equity Pledge Agreement, has priority rights to (i) the equity interests in PRC Operational Entity or (ii) consideration arising from the transfer of such equity interests to third parties.

Our PRC Legal Advisers have advised us that the registration of the pledges created under the Equity Pledge Agreement is routine and procedural, and is not subject to any approval of any PRC authorities.

Conduct of operations in compliance with the Contractual Arrangements

Our Group has adopted the following measures to ensure the sound and effective operation of our Group following the implementation of the Contractual Arrangements:

- (a) as part of the internal control measures, major issues arising from implementation of the Contractual Arrangements will be reviewed by the Board on a regular basis, which will be no less frequent than every quarter;
- (b) matters relating to compliance and regulatory enquiries from governmental authorities (if any) will be discussed at such regular meetings or extraordinary meetings of the Board, if appropriate;
- (c) the relevant business units and operation divisions of our Group will report regularly (which will be no less frequent than on a monthly basis) to the senior management of our Company on the compliance and performance conditions under the Contractual Arrangements and other related matters;

CONTRACTUAL ARRANGEMENTS

- (d) our Company shall comply with the conditions prescribed under the waiver given by the Stock Exchange in connection with the continuing connected transactions contemplated under the Contractual Arrangements; and
- (e) (if required) legal advisors and/or other professionals will be retained to assist our Group to deal with specific issues arising from the Contractual Arrangements.

Effect and Legality of the Contractual Arrangements

The Contractual Arrangements effectively transfer the economic benefits of the PRC Operational Entity and the risks associated therewith to Xiangyu PRC, and, on this basis, the financial position and operating results of the PRC Operational Entity are consolidated into our Group's combined financial statements. The Composite Services Agreement and Proxy Agreement may only be renewed and terminated by Xiangyu PRC. Pursuant to the Composite Services Agreement, we provide dredging project management services, including dredging crew recruitment and management services. Accordingly, we effectively assume the role of managing and supervising the day-to-day operations of the PRC Operational Entity. In addition, in order to further ensure that the PRC Operational Entity is effectively controlled by our Group and managed and operated in accordance with our Group's instructions, the Proxy Agreement and the Option Agreement provide that all of the PRC Operational Entity's directors and senior management members are nominated by our Group and pursuant to the Composite Services Agreement, such directors and senior management members cannot be removed without the prior written consent of Xiangyu PRC.

Basis of consolidating the results of the PRC Operational Entity, including the revenue and profit attributable to the PRC Operational Entity during the Track Record Period

Our PRC Legal Advisers have advised us that, pursuant to the terms of the Contractual Arrangements, Xiangyu PRC has obtained control over the financial and operational policies of the PRC Operational Entity and all of the beneficial economic interests of this entity, even though it does not own an equity interest in the PRC Operational Entity. In addition, the PRC Operational Entity, Xiangyu PRC and other companies comprising our Group have been under the common control of Mr. Liu since their respective dates of establishment, and the Reorganization, including the execution of the agreements constituting the Contractual Arrangements, is considered to constitute a business combination under common control. Accordingly, the PRC Operational Entity is accounted for pursuant to HKFRS 3 Business Combination as a subsidiary of our Company throughout the Track Record Period on a merger basis. Therefore, the assets, liabilities and results of PRC Operational Entity are included in the financial information of our Company as if our Company had always been the parent of the PRC Operational Entity.

See Note 1 to the Accountants' Report set out in Appendix I to this prospectus for more information about the consolidation of the financial position and operating results of the PRC Operational Entity in our Group's combined financial statements.

Revenue generated from the PRC Operational Entity amounted to approximately 99.9%, 100.0% and 100.0% of our total revenue in the years ended December 31, 2008, 2009 and 2010, respectively. Furthermore, 100.0%, 100.0% and 129.5% of our total net profit was derived from the PRC Operational

CONTRACTUAL ARRANGEMENTS

Entity in each of these periods. Net profit derived from our PRC Operational Entity was greater than 100% of our total net profit in 2010 primarily due to net losses incurred by certain subsidiaries of our Company.

Our PRC Legal Advisers have advised us that they are of the opinion that:

- (a) on the basis of the applicable PRC laws and regulations, it is appropriate for a PRC legal adviser to give a legal opinion as to the legality of the agreements constituting the Contractual Arrangements;
- (b) on the basis disclosed below, each of the agreements constituting the Contractual Arrangements constitutes legal, valid and binding obligations of the parties thereto under the PRC laws; and the Contractual Arrangements as constituted by all the agreements mentioned above, individually and collectively comply with all existing PRC laws and regulations and the provisions of the respective articles of association of the relevant companies incorporated in the PRC;
- (c) save for (1) the registration of the pledges of equity interests created under the Equity Pledge Agreement in the register of members of the PRC Operational Entity and with the relevant office of the State Administration for Industry and Commerce, and (2) the registration of the pledge of the dredgers created under the Vessel Pledge Agreements with the relevant authorities in the PRC and, subject to any new laws and regulations promulgated by the PRC government authorities to the contrary, no consent, approval, permit or authorizations by any PRC government authorities is required under the prevailing PRC laws and provisions in connection with the execution, effectiveness and enforceability of the agreements constituting the Contractual Arrangements, either before or after the Listing;
- (d) the respective current businesses and operations of Xiangyu PRC and the PRC Operational Entity, as described in this prospectus, are within their respective permitted business scope as approved by the competent government authorities in the PRC and have not been found by any PRC governmental authorities to be in violation of their respective permitted business scope; and
- (e) each of Xiangyu PRC and the PRC Operational Entity has obtained all necessary approvals for its business and in respect of the Contractual Arrangements.

Bases of the PRC legal opinion

The Contractual Arrangements consist of the Composite Services Agreement, Equity Pledge Agreement, Vessel Pledge Agreements, Proxy Agreement and Option Agreement. Our PRC Legal Advisers opine that the aforesaid agreements are legal, valid and binding on the parties thereto based on the facts that the Contractual Arrangements are governed by contractual principles and fall within the category of civil legal relationship. The legality of such Contractual Arrangements is determined by laws applicable to civil legal relationship, such as the PRC Contract Law, the PRC Property Law and the PRC Companies Law, in particular, (i) the pledges on the equity interests of the PRC Operational Entity under Equity Pledge Agreement are enforceable subject to the completion of the registration with the competent Administration for Industry and Commerce of the PRC; (ii) the pledges on the vessels under the Vessel Pledge Agreements shall be registered

CONTRACTUAL ARRANGEMENTS

with the competent Maritime Safety Administration of the PRC. Save as described above, no approvals or consents are required to be obtained from the PRC authorities and no registration procedures are required to be carried out for the entering into and enforcement of the agreements under the Contractual Arrangements; (iii) pursuant to the PRC Contract Law, individuals and enterprises have the rights to enter into contracts, (iv) pursuant to the PRC Property Law, the equity interest in a company may be pledged for securing the performance of the obligations under an agreement, and (v) according to the PRC Companies Law, any shareholder of a company may designate another person to attend shareholders' meetings and vote on its/his/her behalf.

Our PRC Legal Advisers confirm that no provisions of the current PRC laws in effect prohibit the Contractual Arrangements. It is also not possible to obtain government or regulatory assurance about the legality of the Contractual Arrangements. Our PRC Legal Advisers advise that the registration of the pledges on (i) equity interests created under the Equity Pledge Agreement and (ii) the vessels created under the Vessel Pledge Agreements, are routine and procedural, and there will be no material impediment for such registration to be completed. Accordingly, our PRC Legal Advisers opine that the Contractual Arrangements are legal, valid and binding under PRC laws.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering, the Capitalization Issue and the exercise of the Pre-IPO Warrants in full (but without taking into account Shares to be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme), Mr. Liu (through Wangji Limited), together with Mr. Dong (through Shen Wang Limited) will be our Controlling Shareholders holding, in aggregate approximately 60.64% of the issued share capital of our Company.

INTEREST IN THE PRC OPERATIONAL ENTITY HELD BY MR. LIU

Immediately following completion of the Reorganization, Mr. Liu will remain the sole beneficial owner of the entire equity interest in the PRC Operational Entity. The equity interests in the PRC Operational Entity are not directly or indirectly attributable to our Company. As part of the Reorganization and in preparation for the Global Offering, we have entered into the Contractual Arrangements with the PRC Operational Entity, by virtue of which the PRC Operational Entity is accounted for as a subsidiary of our Group. For details of the Contractual Arrangements, please refer to the section headed “Business — Contractual Arrangements.”

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Save as otherwise disclosed in the section headed “Connected Transactions” in this prospectus, our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders upon or shortly after the Listing. Our Group is capable of carrying on our business independently of and does not place undue reliance on our Controlling Shareholders, taking into consideration the following factors:

Business Independence

Mr. Liu has entered into a service agreement with our Company for a term of three years. He is committed to devote substantially all of his time to our Group. He has been a director of all members of our Group. Mr. Liu has been leading our operations and businesses, and responsible for overseeing the overall strategic development and soliciting business opportunities for our Group. He will continue to do so in accordance with the terms of the service agreement entered into with our Company.

Mr. Dong has entered into a letter of appointment with our Company for a term of three years. He will be responsible for our corporate strategy.

Our Group has independent access to the sources of supplies for the provision of our dredging services. Our Controlling Shareholders are not suppliers or intermediaries for our Group’s supplies. Save for Mr. Liu’s involvement in the management and operation of our Group in his capacity as our Director, we have independent access to our customer base. Our Directors believe that our Group has not unduly relied on the Controlling Shareholders or their respective associates to carry on its business during the Track Record Period.

Management and Administrative Independence

Our Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors. Each of our Directors is aware of his/her fiduciary duties as a Director of our Company which requires, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

Mr. Liu is an executive Director and the Chief Executive Officer of our Company. Ms. Zhou, Mr. Liu's spouse, is an executive Director who oversees the daily operations of our Group. Mr. Dong is a non-executive Director who does not provide daily management services to our Group. All other essential management functions (such as financial and accounting management, invoicing and billing, engineering, project management, human resources and information technology) have been and will be carried out by the management of our Group, without unduly requiring the support of our Controlling Shareholders and/or their respective associates. Our Directors are of the view that our Group is capable of managing our business independently from our Controlling Shareholders after the Global Offering.

Financial Independence

As of the date of this prospectus, all loans, advances and balances due to and from our Controlling Shareholders and their respective associates have been fully settled and all securities and guarantees provided by our Controlling Shareholders and their respective associates on our Group's borrowings have been fully released. Our Group has its own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payments, as well as independent access to third party financing. As such, our Directors believe that we are financially independent from our Controlling Shareholders and their respective associates.

TRANSACTIONS BETWEEN OUR GROUP AND OUR CONTROLLING SHAREHOLDERS DURING THE TRACK RECORD PERIOD

The following transactions have been entered into between our Group and our Controlling Shareholders during the Track Record Period:

- (i) Tenancy agreement with Yancheng Xingyu Construction Materials Manufacturing Company Limited (鹽城興宇建材製造有限公司) (“**Xingyu Construction**”)

Xingyu Construction is owned as to 40% by Mr. Liu, it is principally engaged in the production and sales of machineries and equipment for environmental protection.

Pursuant to a tenancy agreement dated July 16, 2010 and entered into between Xingyu Construction as landlord and the PRC Operational Entity as tenant, the PRC Operational Entity leased from Xingyu Construction a property located in the PRC for office purposes for a term from July 16, 2010 to June 30, 2013 at an annual rental of RMB40,000. The said tenancy will continue after the Listing. The Directors consider that the rental payable by the PRC Operational Entity is not higher than the prevailing market rate and such tenancy agreement is on normal commercial terms.

- (ii) Tenancy agreement with Yancheng City San Ben Concrete Company Limited (鹽城三本混凝土有限公司) (“**San Ben Concrete**”)

San Ben Concrete is owned as to 50% by Mr. Liu, it is principally engaged in the production of commodity concrete, sale of building materials and lease of construction equipment.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Pursuant to a tenancy agreement dated December 30, 2009 entered into between San Ben Concrete as landlord and the PRC Operational Entity as tenant, the PRC Operational Entity leased from San Ben Concrete a property located in the PRC for office purposes for a term of 10 years from December 30, 2009 to December 29, 2019 at an annual rental of RMB51,000. The said tenancy will continue after the Listing. The Directors consider that the rental payable by the PRC Operational Entity is not higher than the prevailing market rate and such tenancy agreement is on normal commercial terms.

(iii) pledge of assets in support of our Group's borrowing

Throughout the Track Record Period, our Group's secured bank borrowings were supported by (i) personal guarantee provided by Mr. Liu and (ii) pledge of properties owned by, among other parties, Mr. Liu, Ms. Zhou, Xingyu Construction and Yancheng Feng Yu Machinery Company Limited (鹽城市豐宇機械有限公司), a company wholly owned by Mr. Liu and is principally engaged in the manufacturing of wind machinery and electrical equipment and sale of metals, electrical appliances, construction materials and chemical products).

As of September 17, 2010, the pledge of properties in item (ii) was released. The security to our Group's bank borrowings was replaced with the corporate guarantee given by Xiangyu PRC. In addition, the personal guarantee provided by Mr. Liu has been released.

NON-COMPETITION UNDERTAKINGS AND CONFIRMATION

Undertakings given by our Controlling Shareholders

Mr. Liu planned to invest the loan amount received from AA Pre-IPO Notes to landed property building and construction-related business in the PRC, which is not related to the dredging-related construction business of our Group in any aspects. Such investment may be made in the form of equity and/or debt investment, and may be made together with other entities (including state-owned entities or private enterprises).

Each of our Controlling Shareholders has confirmed that currently he/it is neither engaged, nor interested, and undertakes to us that he/it shall not and shall procure that his/its associates at any time during the Relevant Period (as defined below) shall not engage or interest in any business which, directly or indirectly, competes or may compete with our business.

Each of our Controlling Shareholders has undertaken (“**Non-Competition Undertakings**”) in favor of our Company that during the Relevant Period:

- (a) if there is any project or new business opportunity that relates to the business activities engaged by our Group from time to time, he/it shall within a reasonable period of time (and in any event not more than 15 days after the relevant Controlling Shareholder and/or his/its associates becomes aware of such opportunity) refer such project or new business opportunity including the information in relation thereto to us (including the independent non-executive Directors) for consideration. The factors which our Directors would take into account when deciding whether or not our Group shall take up such new project or business opportunities include, among others, the costs and risks involved, the short-term and long-term benefits expected to be brought to our Group, possible compliance issues and whether such

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

opportunities are in the interest of our Company and its Shareholders as a whole. The Non-Competition Undertakings are expected to be effective in that our Controlling Shareholders and/or their respective associates shall be entitled to pursue the potentially competing business opportunities only after the step of careful scrutiny and approval from the Board will have been taken, and that the principal terms of such project or business opportunity by which our Controlling Shareholders and/or their respective associates subsequently pursued shall be no more favorable than those initially considered by our Group. Notwithstanding his taking up of the new projects or business opportunities (if any), each of Mr. Liu and Mr. Dong shall, as a Director, always perform his duties in good faith and in the interest of our Company, and Mr. Liu, as one of our executive Directors shall not allow his commitment to devote substantially all of his time to our Group be undermined in any way;

- (b) save as otherwise disclosed in paragraph (a) above and subject to paragraph (c) below or otherwise than through our Group, he/it will not, in any Relevant Capacity (as defined below), and it/he will procure its/his associates, in any Relevant Capacity not to, invest or participate in any project or business opportunity that competes or may compete, directly or indirectly, with the business activities engaged by our Group from time to time;
- (c) he/it will not in any Relevant Capacity (and he/it will procure his/its associates (excluding our Group) not to in any Relevant Capacity) invest or participate in any project or business opportunity mentioned in paragraph (b) above, unless such project or business opportunity shall have been rejected by us in Board meeting(s) with the participation of the independent non-executive Directors having been allowed a reasonable period of time to consider the subject matters and without the attendance by any Directors with beneficial interest in such project or business opportunity, in which resolutions have been duly passed by the majority of the independent non-executive Directors that our Company or relevant member of our Group has rejected such project or business opportunity and that the relevant associate(s) of our Controlling Shareholders (excluding our Group) shall be entitled to accept or engage in such opportunities;
- (d) he/it shall not and shall procure his/its associates not in any Relevant Capacity to directly or indirectly engage or otherwise be interested in the business which is the same or similar to that carried on by our Group (otherwise than through our Group).

For the purpose of the Non-Competition Undertakings, “**Relevant Period**” means the period commencing from the Listing Date and shall expire on the earlier of the date on which (a) our Controlling Shareholders and their respective associates (individually or taken as a whole) cease to own 30% or more of the then issued share capital of our Company directly or indirectly or cease to be deemed as controlling shareholders (within the meaning ascribed to it under the Listing Rules from time to time) of our Company and do not have power to control the Board and there is at least one other Shareholder holding more Shares than our Controlling Shareholders and their respective associates then taken together; or (b) the Shares cease to be listed on the Stock Exchange; and

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

“**Relevant Capacity**” means for its own account or for that of any person, firm or company other than any member of our Group and whether through the medium of any company which is its associate (for which purpose there shall be aggregated with its shareholding or ability to exercise control the shares held or controlled by any of its associates) or as principal, partner, director, employee, consultant or agent and whether for profit, reward or otherwise.

In addition, under the Non-Competition Undertakings, each of our Controlling Shareholders has undertaken to our Company that he/it shall provide and/or procure the provision to our Company and/or our Directors (including the independent non-executive Directors) from time to time all information necessary (including his/its interests in any projects or business opportunities under paragraph (a) above (and including any changes thereof)) for annual review by the independent non-executive Directors with regard to compliance with the terms of the Non-Competition Undertakings and each of our Controlling Shareholders also undertakes to allow our Directors, their respective representatives and the auditors of our Group to have sufficient access to the records of the relevant Controlling Shareholder and his/its associates to ensure their compliance with the terms and conditions under the Non-Competition Undertakings. Each of our Controlling Shareholders has also undertaken to issue an annual confirmation to us on compliance with the terms of the Non-Competition Undertakings, his/its interests in any projects or business opportunities under paragraph (a) above (including any changes thereof), if any, and consenting to the disclosure of such confirmation in the annual reports of our Company, thereby enabling our Company to keep monitoring the relevant compliance by our Controlling Shareholders.

Each of our Controlling Shareholders further undertakes to our Company:

- (A) to supply to our Company prior to the Listing with full and accurate details of any business or interest (if any) which the relevant Controlling Shareholder and/or its/his associates has or may have which competes or may compete with the business from time to time carried on by our Group and any other conflicts of interests (if any) which the relevant Controlling Shareholder has or may have with our Group and whether the relevant Controlling Shareholder and/or its/his associates intends or does not intend to inject such business or interest into our Group;
- (B) at any time during which the Shares of our Company are listed on the Stock Exchange and for so long as the Controlling Shareholders and/or their respective associates are regarded, whether individually or taken together, as controlling shareholders within the meaning of the Listing Rules, notify our Company forthwith of any changes of the details and information referred to in paragraph (A) above so as to enable our Company to, if required, disclose such information by way of an announcement and, if so required by the Stock Exchange, include such information in all circulars, annual reports, half-year reports and/or quarterly reports required to be issued by our Company pursuant to the Listing Rules;
- (C) to procure any Director from time to time nominated by the Controlling Shareholders:
 - (i) to disclose to our Company prior to the Listing and at any time during which the Shares of our Company are listed on the Stock Exchange full and accurate details of any business or interest (if any) which such Director and/or his associates has or may have which competes or may compete with the business from time to time carried on by our Group and any other conflicts of interest (if any) which such Director has or may have with our Group;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (ii) to notify our Company forthwith of any changes of the details and information referred to in paragraph (C)(i) above, including any such business or interest acquired by such Director and/or his associates after the Listing so as to enable our Company to include such information in its annual reports and, if so required by the Stock Exchange, its half-year reports, quarterly reports, announcements and/or circulars.

The Controlling Shareholders acknowledge that and, if so required by our Company, procure such Director(s) referred to in paragraph (C) above to acknowledge that the information supplied to our Company pursuant to paragraphs (A), (B) and/or (C) above will or may be disclosed by our Company in this prospectus, circulars, reports, announcements and other statements to the Stock Exchange and/or any regulatory authorities and their respective officers and employees from time to time issued by our Company and that such disclosure is required by our Company in order to comply with the requirements of the Stock Exchange and/or other regulatory bodies.

Concerning the Non-Competition Undertakings,

- (a) the independent non-executive Directors would review, at least on an annual basis, the compliance with and enforcement of the terms of the Non-Competition Undertakings by our Controlling Shareholders and if any, the options, pre-emptive rights or first rights of refusals provided by our Controlling Shareholders and/or their respective associates on their existing or future competing businesses;
- (b) our Company shall disclose decisions with basis on matters reviewed by the independent non-executive Directors relating to non-compliance and enforcement of the Non-Competition Undertakings (including whether to take up the options, pre-emptive rights or first rights of refusals) either through annual report, or by way of announcement and/or other documents issued or published by our Company as required under the Listing Rules; and
- (c) our Company shall disclose in the corporate governance report of its annual reports on how the terms of the Non-Competition Undertakings are complied with and enforced.

Confirmation given by other Directors

Each Director confirms that he/she does not have any competing business with our Group.

CORPORATE GOVERNANCE

Our Directors recognize the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders. We would adopt the following corporate governance measures in relation to managing potential conflict of interests (if any) between our Group and our Directors (including independent non-executive Directors and the Controlling Shareholders):

- (a) Each Director has, pursuant to his service contract or engagement letter, covenanted with and undertaken to our Company that during the term of his/her service or appointment, he/she shall not, and shall procure that none of his/her associates shall, directly or indirectly, be engaged in or concerned with or interested in any business which is or may be in any respect in competition with the business carried on from time to time by our Group. However, the

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

aforesaid restriction does not prohibit the holding (directly or through nominees) by a Director and/or his/her associates of any securities listed on any stock exchanges as long as not more than 5% of the total voting rights attaching to the securities of the same class shall be so held (or, if such investment or holding is over 5%, our Directors concerned should seek the Board's prior written approval before making the relevant investment (with the relevant Director abstaining from voting)) and on the condition that neither the Director nor his/her associates participate in or are otherwise involved in the management of that company and shall not restrict the holding of any securities of our Company. Subject to the exceptions as aforesaid, during the term of his/her appointment and for a period of one year after the expiry or the termination of his/her service or appointment, a Director shall not, and shall procure that none of his/her associates will, directly or indirectly, either alone or jointly with others or as manager or agent for any person, firm or company whether or not for gain engage or be engaged in Hong Kong or those regions and markets within the PRC or elsewhere in which any member of our Group operates or has operated any part of its business from time to time, whether directly or indirectly, in any business which is or may be in competition with the business carried on from time to time by our Group.

In principle, the Board will give its written approval for Directors to hold more than 5% of the total voting rights in any listed securities ("**Investee Company**") when it considers that such holding will not prejudice the interest of our Company and its Shareholders as a whole. In particular, a balance of the following criteria will be taken into account:

- (1) the revenue contributed by the competing or possibly competing sector as compared with the total revenue of the Investee Company — if the contribution is insignificant, the Board may, on balance, be more inclined to allow the 5% or more shareholding in the Investee Company;
 - (2) the shareholding structure of the Director concerned in the Investee Companies after such investment — if the Director concerned will become the single largest shareholder of the Investee Company, the Board may, on balance, be less inclined to allow the 5% or more shareholding in the Investee Company;
 - (3) the entitlement to board seat by the relevant Director in the Investee Company — if the Director concerned will also be entitled a major portion of the board seat of the Investee Company, the Board may, on balance, be less inclined to allow the 5% or more shareholding in the Investee Company; and
 - (4) other applicable factors (e.g. market sentiment, the development strategy of our Group at the material time) which the Board considers relevant from time to time.
- (b) Where a Board meeting is to be held for considering proposed transactions in which the relevant Controlling Shareholders/Director(s) has a material interest, the relevant Controlling Shareholder and/or the relevant Director concerned may not vote on the resolutions of the Board approving the same and shall not be counted in the quorum for the voting so as to ensure the relevant matters will be considered by disinterested Directors only.
- (c) Where the advice from independent professional, such as that from financial adviser, is reasonably requested by our Directors (including the independent non-executive Directors), the appointment of such independent professional will be made at our Company's expenses.

CONNECTED TRANSACTIONS

Upon the Listing, the transactions set forth below will constitute continuing connected transactions (as such term is defined under the Listing Rules) for our Company under Chapter 14A of the Listing Rules.

Relationship between our Group and the connected persons

The relevant connected persons with whom certain members of our Group have entered into continuing connected transactions are as follows:

(i) *Mr. Liu and Ms. Zhou*

Mr. Liu and Ms. Zhou are our Directors and Mr. Liu is one of our Controlling Shareholders. They are therefore connected persons of our Company under Rule 14A.11(1) of the Listing Rules.

(ii) *Yancheng Xingyu Construction Materials Manufacturing Company Limited (鹽城興宇建材製造有限公司) (“Xingyu Construction”)*

Xingyu Construction is owned as to 40% by Mr. Liu and is therefore an associate of Mr. Liu and a connected person of our Company under Rule 14A.11(4) of the Listing Rules. Xingyu Construction is principally engaged in the production and sales of machineries and equipment for environmental protection.

(iii) *Yancheng City San Ben Concrete Company Limited (鹽城三本混凝土有限公司) (“San Ben Concrete”)*

San Ben Concrete is owned as to 50% by Mr. Liu and is therefore an associate of Mr. Liu and a connected person of our Company under Rule 14A.11(4) of the Listing Rules. San Ben Concrete is principally engaged in the production of commodity concrete, sale of building materials and lease of building equipment.

(iv) *PRC Operational Entity*

Since Mr. Liu is the sole beneficial owner of the PRC Operational Entity, the PRC Operational Entity is Mr. Liu’s associate and is therefore a connected person of our Company under Rule 14A.11(4) of the Listing Rules.

Under the Listing Rules, for so long as Mr. Liu, Ms. Zhou, Xingyu Construction, San Ben Concrete and/or the PRC Operational Entity remain connected persons of our Company, the following transactions between our Group and the abovementioned connected persons would constitute continuing connected transactions for our Company upon the Listing.

(A) Exempted continuing connected transactions

Upon our Listing, the following continuing connected transactions under this paragraph (A) will constitute exempt connected transactions for our Company under Rule 14A.33(3) of the Listing Rules. They are exempted from the reporting, announcement and independent

CONNECTED TRANSACTIONS

Shareholders' approval requirements stipulated under the Listing Rules because they are conducted on normal commercial terms and each of the percentage ratios (other than the profits ratio) of the following transactions on an annual basis is less than 0.1%.

(i) *Tenancy agreement with Xingyu Construction*

Pursuant to a tenancy agreement dated July 16, 2010 and entered into between Xingyu Construction as landlord and the PRC Operational Entity as tenant, the PRC Operational Entity has agreed to lease from Xingyu Construction a property located in the PRC for office purpose for a term from July 16, 2010 to June 30, 2013 at an annual rental of RMB40,000. The Directors consider that the rental payable by the PRC Operational Entity is not higher than the prevailing market rate and such tenancy agreement is on normal commercial terms.

(ii) *Tenancy agreement with San Ben Concrete*

Pursuant to a tenancy agreement dated December 30, 2009 entered into between San Ben Concrete as landlord and the PRC Operational Entity as tenant, the PRC Operational Entity has agreed to lease from San Ben Concrete a property located in the PRC for office purpose for a term of 10 years from December 30, 2009 to December 29, 2019 at an annual rental of RMB51,000. The Directors consider that the rental payable by the PRC Operational Entity is not higher than the prevailing market rate and such tenancy agreement is on normal commercial terms.

According to Jones Lang LaSalle Sallmanns Limited, an independent property valuer, the annual rentals under the tenancy agreements with both Xingyu Construction and San Ben Concrete respectively are no higher than the prevailing market rates and the terms of these agreements are normal commercial terms.

(B) *Continuing connected transactions subject to reporting, announcement and independent Shareholders' approval requirements*

A waiver application from strict compliance with the relevant announcement and independent Shareholders' approval requirements has been submitted to and granted by the Stock Exchange.

Background for the Contractual Arrangements

Our Group is principally engaged in providing capital dredging and reclamation dredging services and it also offers maintenance dredging and environmental protection dredging services in the PRC.

In China, enterprises engaging in dredging business must obtain a general contracting certificate for port and waterway construction (港口與航道工程施工總承包企業資質) or a specialty contracting certificate for waterway construction (航道工程專業承包企業資質). One of the requirements for issuance of such certificate by the relevant PRC authorities is that the applicant enterprise must be registered owner of vessel(s) with the stipulated functions. Under the relevant PRC laws, the Maritime Safety Administration of the PRC would not register the ownership of a vessel if such vessel is owned by any enterprise whose

CONNECTED TRANSACTIONS

registered capital is contributed by Chinese investor(s) by less than 50%. As a result, the maximum foreign investment in the dredging business sector is limited to 50% of the equity interests in a target enterprise which owns vessels for conducting the dredging business.

Pursuant to the Contractual Arrangements between the PRC Operational Entity on the one part and Xiangyu PRC, Mr. Liu and Ms. Zhou (as the case may be) on the other part, we conduct our business operations indirectly in the PRC through the PRC Operational Entity by way of the Contractual Arrangements. The PRC Operational Entity will continue to engage in its existing business activities.

Although our Group does not have any direct or indirect equity holding in the PRC Operational Entity, we manage to maintain an effective control over the financial and operational policies of the PRC Operational Entity and are entitled to the economic benefits derived from the operations of the PRC Operational Entity through the Contractual Arrangements, details of which are set out below:

Principal terms of the transactions

The Contractual Arrangements comprise the following agreements: Composite Services Agreement, Option Agreement, Proxy Agreement, Equity Pledge Agreement and Vessel Pledge Agreements. Brief details of the continuing connected transactions (*i.e.*, the transactions contemplated by the said agreements which constitute the Contractual Arrangements) entered into between the relevant connected persons and Xiangyu PRC are set out in the section headed “Business — Contractual Arrangements” of this prospectus.

Reasons for this application and the view of our Directors on the continuing connected transactions

As advised by the PRC Legal Advisers to our Company in connection with the Listing, the Contractual Arrangements are in compliance with and, to the extent governed by the PRC laws currently in force, are enforceable under the current PRC laws and that in the event of any breach or default by Mr. Liu, Ms. Zhou or the PRC Operational Entity, Xiangyu PRC can take legal actions against any one of them.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements are fundamental to our Group’s legal structure and business operations and are on normal commercial terms or terms more favorable to our Group in the ordinary and usual course of our Group’s business and are fair and reasonable or to the advantage of our Group and are in the interests of the Shareholders as a whole.

Our Directors also believe that our Group’s structure whereby the financial results of the PRC Operational Entity are consolidated into our Group’s financial statements as if it was our Group’s wholly owned subsidiary, and the economic benefit of its business flows to our Group, places our Group in a special position in relation to the connected party transaction rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions for the purposes of Chapter 14A of the Listing Rules, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs of our Company, for all

CONNECTED TRANSACTIONS

transactions contemplated under the Contractual Arrangements to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and approval of the independent Shareholders.

To ensure sound and effective operation of our Group after the adoption of the Contractual Arrangements, the management of our Group plans to take the following measures:

- (a) as part of the internal control measures, major issues arising from implementation of the Contractual Arrangements will be reviewed by the Board on a regular basis which will be no less frequent than every quarters;
- (b) matters relating to compliance and regulatory enquiries from governmental authorities (if any) will be discussed at such regular meetings or extraordinary meetings of the Board, if appropriate;
- (c) the relevant business units and operation divisions of our Group will report regularly (which will be no less frequent than on a monthly basis) to the senior management of our Company on the compliance and performance conditions under the Contractual Arrangements and other related matters;
- (d) our Company shall comply with the conditions prescribed under the waiver given by the Stock Exchange in connection with the continuing connected transactions contemplated under the Contractual Arrangements; and
- (e) (if required) legal advisers and/or other professionals will be retained to assist our Group to deal with specific issues arising from the Contractual Arrangements.

Application for and conditions of waiver

In view of the above, we have applied to the Stock Exchange pursuant to Rule 14A.42(3) of the Listing Rules for, and the Stock Exchange has granted, a waiver from (i) strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting a maximum aggregate annual value (*i.e.*, an annual cap) for the fees payable to Xiangyu PRC under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements to three years or less, for so long as Shares are listed on the Stock Exchange subject however to the following conditions:

- (a) *No change without independent non-executive Directors' approval:* No changes to the terms of any of the contracts constituting the Contractual Arrangements will be made without the approval of the independent non-executive Directors.
- (b) *No change without independent Shareholders' approval:* Save as described in paragraph (d) below, no changes to the terms of any of the contracts constituting the Contractual Arrangements will be made without the approval of our Company's independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the

CONNECTED TRANSACTIONS

independent Shareholders, except for those described above, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

- (c) *Economic benefits flexibility:* The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the PRC Operational Entity through: (i) our Group's potential right (if and when so allowed under the applicable PRC laws) to acquire the equity interests in the PRC Operational Entity; (ii) the business structure under which the revenue generated by the PRC Operational Entity is substantially retained by Xiangyu PRC (such that no annual caps shall be set on the amount of services fees payable to Xiangyu PRC under the Composite Services Agreement); and (iii) Xiangyu PRC's right to control the management and operation of, as well as, in substance, all of the voting rights of the PRC Operational Entity.

- (d) *Renewal and cloning:* On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on one hand, and the PRC Operational Entity, on the other hand, that framework may be renewed and/or cloned upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as described under the section headed "Business — Contractual Arrangements" above of this prospectus. Such new wholly foreign-owned enterprise or operating company (including branch company) may be established by our Group for expansion into the market due to potential business growth. If and when the term of operation of the PRC Operational Entity as set out in its operating license comes to an end in future, our Group may also establish new companies as and when considered necessary. The directors, chief executive or substantial shareholders (as defined in the Listing Rules) of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish when justified by business expediency will, upon renewal and/or cloning of the Contractual Arrangements, however be treated as our Group's connected persons and transactions between these connected persons and our Group other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant laws, regulations and approvals of the PRC.

CONNECTED TRANSACTIONS

- (e) *Ongoing reporting and approvals:* our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:
- (1) The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules.
 - (2) Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the revenue generated by the PRC Operational Entity has been substantially retained by Xiangyu PRC; (ii) no dividends or other distributions have been made by the PRC Operational Entity to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) any new contracts entered into, renewed or reproduced between our Group and the PRC Operational Entity during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Shareholders as a whole.
 - (3) Our Company's auditors will carry out procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange, at least ten Business Days before our Company bulk prints its annual report, reporting their findings whether that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by the PRC Operational Entity to the holders of its equity interests which are not otherwise subsequently assigned/transferred to our Group.
 - (4) For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the PRC Operational Entity will be treated as our Company's wholly owned subsidiary, but at the same time, the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the PRC Operational Entity and their respective associates will be treated as our Company's "connected persons" (excluding for this purpose the PRC Operational Entity) and transactions between these connected persons and our Group (including for this purpose the PRC Operational Entity) other than those under the Contractual Arrangements shall comply with Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

- (5) The PRC Operational Entity will undertake that, for so long as the Shares are listed on the Stock Exchange, the PRC Operational Entity will provide our Group's management and our Company's auditors with full access to its relevant records for the purpose of procedures to be carried out by our Company's auditors' on the connected transactions.

Confirmation from the Sole Sponsor

The Sole Sponsor is of the view that the terms of the agreements constituting the Contractual Arrangements and the transactions contemplated thereunder have been entered into in our ordinary and usual course of business, on normal commercial terms and are fair and reasonable and are in the interests of the Shareholders as a whole.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Our Board consists of six Directors, including two executive Directors, one non-executive Director and three independent non-executive Directors.

The information of our Directors is set out as follows:

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>
Liu Kaijin (劉開進)	51	Executive Director and Chief Executive Officer
Zhou Shuhua (周淑華)	48	Executive Director
Dong Liyong (董立勇)	39	Non-executive Director and Chairman
Leung Mei Han (梁美嫻)	52	Independent non-executive Director
Zhang Jun (張駿)	57	Independent non-executive Director
Peng Cuihong (彭翠紅)	64	Independent non-executive Director

Executive Directors

Mr. Liu Kaijin (劉開進), aged 51, the founder of our Group, was appointed as a Director on May 31, 2010, and was re-designated as our executive Director and Chief Executive Officer on May 24, 2011. Mr. Liu is the spouse of Ms. Zhou, an executive Director of our Company. Mr. Liu is responsible for overseeing the daily operations of our Group.

Mr. Liu has been residing in the PRC for a substantial period of time. He completed his secondary education in 1977. In 2003, Mr. Liu obtained a certificate as a senior construction engineer from the Human Resources Bureau of Yancheng City (鹽城市人事局). Prior to the incorporation of the PRC Operational Entity, Mr. Liu worked in the PRC dredging industry for approximately 20 years. Mr. Liu has been engaged in large-scale dredging projects since the early 1990s, including the Suzhou Wangyuhe Dredging Project (蘇州望虞河疏浚工程), the balancing tank and subaqueous water pipe dredging projects for the construction of Shanghai Pudong International Airport (上海浦東國際機場), the Qingdao Port expansion project (青島港擴建工程) and the Caofeidian Industrial Area project. Mr. Liu also jointly invested with other parties in various PRC companies, whose principal activities included engaging in navigation channels projects in the PRC. As his experience and knowledge in the PRC dredging business grew, Mr. Liu started his own business by establishing the PRC Operational Entity in July 2007. Since then, he has acted as the chairman of the PRC Operational Entity and has been responsible for overseeing its daily operations and planning its business strategies. Mr. Liu has been the chairman and general manager of Xiangyu PRC since its incorporation in June 2010 and he is currently a director of each of our other subsidiaries.

Mr. Liu is currently a member of the 6th session of the committee being a representative of the Industry and Commerce Federation of the Chinese People's Political Consultative Conference of Yancheng City, Jiangsu Province and a member of the 14th session of the People's Congress of Yandu District, Yancheng City.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Ms. Zhou Shuhua (周淑華), aged 48, was appointed a Director of our Company on August 18, 2010 and re-designated as our executive Director on May 24, 2011. She is the spouse of Mr. Liu, our executive Director and Chief Executive Officer. Ms. Zhou has acted as a director of the PRC Operational Entity since its incorporation in July 2007. She is responsible for general administrative work of our Group.

Ms. Zhou graduated from The Correspondence Institute of the Party School of the Central Committee of the Communist Party of China (中共中央黨校函授學院), the PRC in December 1999 and obtained a graduation certificate for undergraduate courses in administrative management. She also obtained a graduation certificate for undergraduate courses in broadcasting in May 2001 from Nanjing Normal University (南京師範大學), the PRC. From February 1999 to March 2004, Ms. Zhou was the broadcast leader at Yancheng Broadcast Television Station (鹽城廣播電視台) and she also performed general management duties. From 2007 and up to the Latest Practicable Date, Ms. Zhou was the Deputy Secretary-General at Yancheng City Television Artists Association (鹽城市電視藝術家協會).

Non-executive Director

Mr. Dong Liyong (董立勇), aged 39, was appointed as our non-executive Director and Chairman on May 24, 2011. Mr. Dong is responsible for corporate strategy. He is the Chairman of our Remuneration Committee and Nomination Committee.

Mr. Dong graduated from the Renmin University of China (中國人民大學), Beijing, the PRC in 1995 with a bachelor's degree in economics, majoring in marketing. In May 2005, Mr. Dong obtained a master's degree in business administration from the Haas School of Business, University of California, Berkeley.

Mr. Dong has approximately 15 years' experience in corporate strategy formulation and execution, investor relations and corporate finance. In 1995, Mr. Dong joined a company owned by Jiangsu Yue Da Group Limited (江蘇悅達集團有限公司). He was during that time primarily responsible for corporate policies and for handling the corporate affairs of the company, which subsequently became a subsidiary of Yue Da Mining Holdings Limited ("Yue Da"), the shares of which are listed on the Main Board of the Stock Exchange (stock code: 629). He has been a director of Yue Da since the listing of the shares of Yue Da on the Stock Exchange in November 2001. From January 2007, Mr. Dong also holds office of vice chairman of the board of directors and the chief executive officer of Yue Da. Mr. Dong has been awarded the Excellence in Achievement of World Chinese Youth Entrepreneurs in 2008 jointly issued by *Yazhou Zhoukan* (亞洲週刊) and the World Federation of Chinese Entrepreneurs Organization (世界華商組織聯盟).

Independent non-executive Directors

Ms. Leung Mei Han (梁美嫻), aged 52, was appointed as our independent non-executive Director on May 24, 2011. She is the Chairman of our Audit Committee and a member of both our Remuneration Committee and Nomination Committee.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Ms. Leung graduated from the University of Queensland, Australia, with a bachelor degree in Commerce in February 1982. She is a fellow member of CPA Australia. Ms. Leung has extensive experience in accounting, securities, corporate finance and related areas. Ms. Leung has been providing corporate finance advisory services for securities and international merger and acquisition transactions. Since August 2007, Ms. Leung has been the chairman and director of Optima Capital Limited (a firm of corporate finance advisers and a licensed corporation under the SFO). Ms. Leung is also an independent non-executive director of each of the following companies, the shares of which are listed on the Main Board of the Stock Exchange: Yue Da Mining Holdings Limited (stock code: 629, of which Mr. Dong is also a director), Bossini International Holdings Limited (stock code: 592) and Four Seas Mercantile Holdings Limited (stock code 374).

Mr. Zhang Jun (張駿), aged 57, was appointed as our independent non-executive Director on May 24, 2011. He is also a member of our Audit Committee.

Mr. Zhang received his tertiary education in leader and cadre correspondence course at the Party School of the Central Committee of the Communist Party of China (中共中央黨校), the PRC from 1992 to 1994. Since 1981, Mr. Zhang has participated in various activities in relation to development for the youth and providing leading role in various divisions of the Chinese Communist Youth League (中國共產主義青年團). He was the deputy head and head of the office of international liaison department, representative of office in Tokyo and deputy director of the international liaison department of Central Committee, deputy director and director of the general office of Central Committee, deputy party secretary of a direct subordinate of Central Committee, member of the 13th and 14th standing committee of Central Committee, of the Chinese Communist Youth League member of the committee of the 7th All-China Youth Federation (全國青聯), member of the standing committee of the 8th All-China Youth Federation, and the chairman of the 1st, 2nd, 3rd and 4th sessions of the board of directors of China CYTS Tours Holding Co. Ltd. (中青旅控股股份有限公司). Mr. Zhang is currently a member of the 11th session of the National Committee of the Chinese People's Political Consultative Conference and general manager and party secretary of the Head Office of China Youth Travel Service (中國青年旅行社總社) (now known as China Youth Travel Group Limited (中國青旅集團公司)). Mr. Zhang is the chairman and legal representative of China CYTS Tours Holding Co., Ltd., the shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600138).

Ms. Peng Cuihong (彭翠紅), aged 64, was appointed as our independent non-executive Director on May 24, 2011. She is a member of our Audit Committee, Remuneration Committee and Nomination Committee.

Ms. Peng graduated from Shanghai Maritime University (上海海事大學) (formerly known as Shanghai Maritime Institute (上海海運學院)) and obtained a graduation certificate for undergraduate courses in marine transport economics in 1970. Ms. Peng worked at the Water Transportation Bureau of the Ministry of Communications (now Ministry of Transport) from July 1975 to November 2006. She was the director of the transportation management division and deputy director and inspector of the water transport department of the Ministry of Communication. Ms. Peng has been engaged in the field of water transport and port management for approximately 30 years. She has conducted in-depth studies and research on the fundamental situation, legal system, development policies and management system of water transport and port of the developed countries such as the European countries and the United States for a considerable period of time, integrating them into the reform and development requirement of the water transport and port of China. Ms. Peng has held, organized and participated in the drafting

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

and the research on laws and regulations such as the “Regulations of the Administration of Water Transport” (《水路運輸管理條例》) and “Port Law” (《港口法》) of China and departmental rules, and the reform of the national port system. Ms. Peng currently serves as the executive vice chairman of the China Pilot Association (中國引航協會) and the independent director of Zhanjiang Port (Group) Co., Ltd. (湛江港(集團)股份有限公司), a joint stock company incorporated in the PRC.

Save as disclosed above, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders of our Company as at the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies the securities of which are listed on any securities market in Hong Kong or overseas in the three years prior to the Latest Practicable Date. As at the Latest Practicable Date, save as the interests of Mr. Liu, Ms. Zhou and Mr. Dong in the Shares which are disclosed in the paragraph headed “Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations” in Appendix VII to this prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Although both Mr. Dong Liyong and Ms. Leung Mei Han are directors of Yue Da Mining Holdings Limited, there is no relationship (whether business, financial and/or shareholding) between Yue Da Mining Holdings Limited, its substantial shareholders and its directors with our Group.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

Mr. Wang Julin (王菊林), aged 59, joined our Group as the chief engineer in August 2010, who is responsible for the management of the engineering department of the PRC Operational Entity.

Mr. Wang studied the profession of ports and waterways at Hohai University (河海大學) of the PRC (formerly known as East China Technical University of Water Resources (華東水利學院)) from 1974 to 1978. Mr. Wang has over 30 years of experience in the implementation, management and administration of waterways engineering and held the positions of officer and project manager of the engineering department of CWWEC from 1978 to 1993. Mr. Wang was awarded the Certificate of Senior Engineer in waterways engineering by the Ministry of Communications (now Ministry of Transport) in 1998 and was awarded the Certificate of Registration of Constructor of First Class by the Ministry of Construction in 2008. He has been responsible for dredging and reclamation projects such as Huanghua Port, Wuhan Port, Shenzhen Yantian Port, 30,000 tonnes grade waterways dredging project of Guangdong Maoming Petrochemical Corporation. Mr. Wang held the position of manager of Wuhai Dredging Engineering Company of Zhuhai City (珠海市武海疏浚工程公司) (a subsidiary under the CWWEC) from 1993 to 1996 and has been responsible for projects such as 20,000 tonnes grade waterways dredging project of Zhuhai Gaolan Port, reclamation project of Waisha Island in Beihai City, dredging project of Humen anchorage and Jiuzhou Port. In June 1996, Mr. Wang joined CWWEC again

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

and held the positions of deputy chief and chief of the engineering and business department and deputy chief engineer (constructor of first class) from 1996 to 2004 and was responsible for the inspection, negotiation and overseeing of various projects and entering into relevant contracts.

Mr. Liu Baocheng (劉寶城), aged 47, joined our Group as a senior engineer of the PRC Operational Entity in May 2010, and is mainly responsible for the research, improvement and modification of dredging technologies and equipment. Mr. Liu graduated from Dalian Water Transportation College (大連海運學院) (now Dalian Maritime University (大連海事大學)) in China, majoring in marine machinery management, and obtained a bachelor degree of engineering in 1985. Mr. Liu has over 25 years' experience in implementation and management of dredging and reclamation projects. Mr. Liu worked at Tianjin Dredging Engineering Co., Ltd. (天津航道局工程有限公司) from 1985 to 2004, during which time he was responsible for the operation, management and supervision of several trailing suction hopper dredgers and cutter suction dredgers, and also participated in the dredging projects of the main channels of Tianjin Port and Jingtang Harbor, the dredging and reclamation works of Qingdao Port, and the reclamation works of Bayuquan Port and Dayaowan Port in Dalian. Mr. Liu was re-designated as the machinery supervisor and deputy head of the marine machinery department of First Dredging Company under Tianjin Dredging Engineering Co., Ltd. and he was also the deputy manager of the Huanghua project in 1998. In 2000, Mr. Liu was re-designated as the deputy head and chief engineer of marine machinery of the marine machinery department of Tianjin Dredging Engineering Co., Ltd. He was mainly responsible for the management of ship repair work, the investigation and handling work of major accidents, the management of the quality control system and ISM Code, the preliminary evaluation of ship acquisitions and the subsequent debugging and receiving works, as well as the restructuring of the company and other management and administrative matters. Since 2005 and up to joining our Group, Mr. Liu served as the general manager of the Qingdao Beiya Construction Company Limited and was mainly responsible for the entire process of design, construction, testing and management of dredgers.

Mr. Huang Jianwei (黃建偉), aged 47, is our senior project manager of the capital dredging and reclamation dredging division. Mr. Huang joined our Group in November 2008 as a project manager of the PRC Operational Entity. Mr. Huang was appointed a director of the PRC Operational Entity in December 2010. and is responsible for managing the Dailian project sector. Mr. Huang has about 10 years of experience in the operation and management of dredging projects. Prior to joining our Group, Mr. Huang was a project manager of various PRC dredging companies, and responsible for dredging business. During such time, he was also responsible for the operation and management of various dredging projects including the reclamation project of Jidong Oilfield on Island 5 of the Caofeidian Industrial Area, the reclamation project of Haiyu Saltern of the Coastal Defence Bureau of Qingdao City and the dredging project of the public channel on Dalian Changxingdao.

Mr. Chen Zhaowu (陳兆武), aged 57, joined our Group in July 2007 and is the deputy general manager of the PRC Operational Entity. He is responsible for managing and providing support for engineering technology of our dredging projects. Mr. Chen completed his tertiary education in Jiangsu Radio and Television University (江蘇廣播電視大學), the PRC in 1986, majoring in industrial and civil construction. In 2004, Mr. Chen obtained a certificate as a construction engineer from the Human Resources Bureau of Yancheng City (鹽城市人事局). Mr. Chen has over 10 years of experience in the implementation and management of port construction and dredging projects. Prior to joining our Group, Mr. Chen was a general manager for over 4 years of a PRC company which has been principally engaged in navigation channels projects. Mr. Chen has also acted as a director of Xiangyu PRC since its incorporation in June 2010.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Lee Chih Chiang, Michael (李志強), aged 62, joined our Group in April 2011 as our senior project manager of the environmental protection dredging division. Mr. Lee obtained a master of science degree in multinational operations management in 1979 from the West Coast University, Los Angeles, the United States. Mr. Lee has received water treatment training organized by the National Taipei University of Technology (formerly known as National Taipei Institute of Technology) and the Foundation of Taiwan Industry Service. Mr. Lee has been engaged in the environmental protection dredging, operation and maintenance for 20 years. Before joining our Group and since 1990, Mr. Lee has worked as a manager or a chief engineer with several water treatment and environmental protection dredging companies in Taiwan and the PRC.

Ms. Elsie Wong (黃愛詩), aged 42, joined our Group in May 2010 and was appointed as our Chief Financial Officer and also our Company Secretary on May 24, 2011. She is responsible for the overall financial and company secretarial matters of our Group.

Ms. Wong graduated from the City University of Hong Kong (formerly known as City Polytechnic of Hong Kong) with a bachelor of arts degree majoring in Accountancy in 1991. Prior to joining our Group, Ms. Wong, as a practising certified public accountant, provides auditing and accounting related services including company secretarial services to several companies, including Vongroup Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 318, formerly known as Kamboat Group Company Limited) and Extrawell Pharmaceutical Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 858). She worked in the assurance and advisory business services department of an international accounting firm for over nine years. Ms. Wong is a practising certified public accountant in Hong Kong and also a member of the HKICPA and fellow member of the Association of Chartered Certified Accountants.

COMPANY SECRETARY

Ms. Elsie Wong (黃愛詩) is our Company Secretary. Please refer to the biographical details of Ms. Wong on the sub-section headed “Senior Management” above.

EMPLOYEES

As at December 31, 2010, we had 183 full-time staff including crew workers in the PRC and 1 full-time staff in Hong Kong. The following sets forth the total number of our staff by responsibilities:

	<u>Total Number</u>
Senior management	6
Project engineers and project management personnel	43
Financing and administrative personnel	18
Research and development consultants	1
Crew members and workers	<u>116</u>
Total	<u><u>184</u></u>

We maintain good working relations with our staff. We have not experienced any significant problems with the recruitment and retention of experienced employees. In addition, we have not suffered from any material disruption of our normal business operations as a result of labor disputes or strikes.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Benefits

As required by the PRC regulations on social insurance, we participate in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance.

The PRC Operational Entity did not make social insurance contributions for all of its employees from the date of the establishment of our Company to December 31, 2009 because most of the employees (mainly those crew members who are working on the dredgers) change their working location from time to time according to the sites of the dredging projects, the turnover rate and the mobility of those employees are relatively high, and those employees indicated their preference of not making their portion of social insurance contributions, which formed part of the contribution to be paid to the social insurance authorities for the PRC Operational Entity in order to fully comply with the relevant social insurance laws and regulations. However, subsequently the PRC Operational Entity has paid all outstanding social insurance contributions for the Track Record Period and up to the Latest Practicable Date.

Our PRC Legal Advisers advised that the relevant social insurance authority of the PRC may require any company failing to pay the social insurance contributions to pay the outstanding contributions within a specified time limit, failing which such company may be required to pay an additional penalty of 0.2% per day for the outstanding amount, which shall be calculated from the date the amount became overdue until full payment is made. Up to the Latest Practicable Date, our Company has not received any order or demand from the relevant social insurance authority of the PRC for payment of such penalty.

Our Group obtained a compliance certificate from Yandu Human Resource and Social Security Bureau (which, as advised by our PRC Legal Advisers, is the appropriate and competent authority to issue the said compliance certificate) on August 6, 2010 which confirmed the PRC Operational Entity's compliance with the relevant laws and regulations related to social security.

Compensation

The aggregate amounts of remuneration (inclusive of pension and bonus) of our Directors for the three years ended December 31, 2008, 2009 and 2010 were approximately RMB94,000, RMB92,000 and RMB951,000 respectively. Details of the arrangement for remuneration are set out in Note 10 to the Accountants' Report in Appendix I to this prospectus. Under such arrangement and pursuant to the Directors' service agreements and letters of appointment referred to in the paragraph headed "Particulars of Directors' service contracts" in Appendix VII to this prospectus, the aggregate amount of directors' fee and other emoluments payable to our Directors for the year ending December 31, 2011 is estimated to be approximately RMB7.1 million, excluding any discretionary bonuses.

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation packages of our Directors and senior management.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

After Listing, our Remuneration Committee will review and determine the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors as an inducement to join or upon joining us.

Share Option Scheme

We have conditionally adopted the Share Option Scheme whereby such selected classes of participants (as more particularly described in Appendix VII to this prospectus) may be granted options to subscribe for Shares at the discretion of the Board. The principal terms of the Share Option Scheme are summarized under the paragraph headed “Share Option Scheme” in Appendix VII to this prospectus.

BOARD COMMITTEES

Audit committee

Our Company established an audit committee (“**Audit Committee**”) with written terms of reference in compliance with Rule 3.21 of the Listing Rules pursuant to a resolution of our Directors passed on May 24, 2011. The primary duties of our Audit Committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting and oversee the internal control procedures of our Company. At present, our Audit Committee comprises Ms. Leung Mei Han, Mr. Zhang Jun and Ms. Peng Cuihong, all being independent non-executive Directors. Ms. Leung Mei Han is the chairman of our Audit Committee.

Remuneration committee

Our Company established a remuneration committee (“**Remuneration Committee**”) on May 24, 2011 with written terms of reference. The primary functions of our Remuneration Committee are to make recommendation to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group, review performance based remuneration and ensure none of our Directors determine their own remuneration. At present, our Remuneration Committee comprises Mr. Dong Liyong, Ms. Leung Mei Han and Ms. Peng Cuihong. Mr. Dong Liyong is the chairman of our Remuneration Committee.

Nomination committee

Our Company established a nomination committee (“**Nomination Committee**”) on May 24, 2011 with written terms of reference. The primary functions of our Nomination Committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board. At present, our Nomination Committee comprises Mr. Dong Liyong, Ms. Leung Mei Han and Ms. Peng Cuihong. Mr. Dong Liyong is the chairman of the Nomination Committee.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

COMPLIANCE ADVISER

We will appoint Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us, among others, at the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) where our Company proposes to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of appointment our compliance adviser shall commence on the Listing Date and end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors, immediately following completion of the Global Offering, the exercise of the Pre-IPO Warrants in full and Capitalization Issue (but without taking into account of any Shares which may be taken up under the Global Offering or any Shares which may be transferred or, as the case may be, allotted and issued upon the exercise of the Over-allotment Option and the options to be granted under the Share Option Scheme), the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group:

<u>Name</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding</u>
Mr. Liu ⁽¹⁾	325,100,000	40.64%
Wangji Limited ⁽¹⁾	325,100,000	40.64%
Mr. Dong ⁽²⁾	160,000,000	20.0%
Shen Wang Limited ⁽²⁾	160,000,000	20.0%

Notes:

- (1) Mr. Liu is the sole beneficial owner of Wangji Limited which is the direct owner of 325,100,000 Shares. Mr. Liu's spouse is Ms. Zhou who is a Director.
- (2) Mr. Dong is the sole beneficial owner of Shen Wang Limited which is the direct owner of 160,000,000 Shares. Mr. Dong's spouse is Ms. Yang Yingying and is deemed to be interested in such 160,000,000 shares by virtue of the SFO.

If the Over-allotment Option is fully exercised, the shareholding attributable to Mr. Dong will be reduced to approximately 16.25%.

In addition to the above and so far as our Directors are aware, immediately following completion of the Global Offering, the following person is directly interested in 10% or more of the nominal value of any class of equity capital carrying rights to vote in all circumstances at general meetings of our subsidiaries:

<u>Name of our subsidiary</u>	<u>Substantial shareholder of such subsidiary</u>	<u>Approximate percentage of shareholding</u>
The PRC Operational Entity	Mr. Liu ⁽¹⁾	100%

- (1) The entire registered capital in the PRC Operational Entity is beneficially owned by Mr. Liu, of which as to about 98.47% registered capital is registered in the name of Mr. Liu, and as to about 1.53% registered capital in the name of Ms. Zhou as trustee for the benefit of Mr. Liu.

SUBSTANTIAL SHAREHOLDERS

Except as disclosed above, our Directors are not aware of any person who will, immediately following the completion of Global Offering, the exercise of the Pre-IPO Warrants in full, and the Capitalization Issue be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

Further details of interests and short position (if any) of the above persons in the Shares are set out in the paragraph “Further information about Directors and Shareholders” in Appendix VII to this prospectus.

SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company as at the date of this prospectus and immediately after completion of the Global Offering:

Authorized share capital:

	<u>HK\$</u>
10,000,000,000 Shares	1,000,000,000

Issued and to be issued, fully paid or credited as fully paid

<u>Number</u>		<u>HK\$</u>
100,000,000	Shares in issue at the date of this prospectus	10,000,000
500,000,000	Shares to be issued pursuant to the Capitalization Issue	50,000,000
180,000,000	Shares issued under the International Offering (subject to reallocation and the Over-allotment Option)	18,000,000
<u>20,000,000</u>	Shares issued under the Hong Kong Public Offering	<u>2,000,000</u>
Total: <u>800,000,000</u>	Shares	<u>80,000,000</u>

Assumptions

The table above assumes that the Global Offering becomes unconditional and the issue of Shares pursuant to the Global Offering. It takes no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted, issued or repurchased or issued by our Company under the general mandates granted to the Directors.

Ranking

The Offer Shares will rank *pari passu* in all respects with all other Shares in issue and/or to be allotted and issued as mentioned in this prospectus, and in particular, will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this prospectus, save for entitlement under the Capitalization Issue.

ISSUING MANDATE

Subject to the Global Offering becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with an aggregate nominal value not exceeding the sum of:

- 20% of the total nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue, excluding Shares that may fall to be issued pursuant to the exercise of options that may be granted under the Share Option Scheme; and

SHARE CAPITAL

- the total amount of the share capital of our Company repurchased by our Company (if any) pursuant to the Repurchase Mandate.

The Issuing Mandate does not apply to situations where the Directors allot, issue or deal with the Shares by way of rights issue, scrip dividend schemes or similar arrangements providing for the allotment and issue of the Shares in lieu of the whole or part of any dividend in accordance with the Articles, or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or pursuant to the Global Offering, the Capitalization Issue or the Shares to be issued upon the exercise of options to be granted under the Share Option Scheme.

The Directors may, in addition to the Shares which they are authorized to issue under the Issuing Mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements or the exercise of any options that may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

The Issuing Mandate will expire:

- on the conclusion of our Company's next annual general meeting; or
- upon the expiration of the period within which our Company is required by law or its Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Further information on the Issuing Mandate is set out under the paragraph headed "Resolutions in writing of all Shareholders passed on May 24, 2011" in Appendix VII to this prospectus.

REPURCHASE MANDATE

Subject to the Global Offering becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the share capital of our Company in issue and to be issued immediately following completion of the Global Offering and the Capitalization Issue excluding Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme.

The Repurchase Mandate relates only to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which are recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant requirements under the Listing Rules is set forth under the paragraph headed "Repurchase by our Company of our own securities" in Appendix VII to this prospectus.

The Repurchase Mandate will expire:

- at the conclusion of our Company's next annual general meeting; or

SHARE CAPITAL

- upon the expiration of the period within which our Company is required by law or its Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Further information on the Repurchase Mandate is set out under the paragraphs headed “Resolutions in writing of all Shareholders passed on May 24, 2011” and “Repurchase by our Company of our own securities” in Appendix VII to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our Company's financial condition and results of operations together with our combined financial statements as of and for each of the years ended December 31, 2008, 2009 and 2010 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus. The accountants' report has been prepared in accordance with HKFRS. Potential investors should read the whole of the accountants' report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are the largest privately owned dredging company in China, based on dredging volume in 2010, with market shares of 15.5% among privately owned dredging companies and 2.4% among all dredging companies in the PRC in 2010, according to the Frost & Sullivan Report. We are engaged in providing capital dredging, reclamation dredging, maintenance dredging and environmental protection dredging services. In addition, we provide dredging-related construction services, which include small-scale land reclamation construction, temporary road construction and soil compaction.

We have achieved significant revenue and profit growth in recent years. Our revenue increased from RMB133.3 million in 2008, to RMB346.5 million in 2009, and to RMB374.9 million in 2010, and our profit and total comprehensive income for the year increased from RMB45.7 million in 2008, to RMB88.8 million in 2009, and to RMB95.0 million in 2010.

We have a limited operating history. Our performance during the Track Record Period may not serve as an adequate basis to evaluate our business. You should consider the risks and difficulties frequently encountered by early-stage companies such as our Company. Our recent revenue growth should not be taken as indicative of the revenue growth, if any, that can be expected in the future. In addition, our limited operating history provides a limited historical basis for assessing the impact that critical accounting policies may have on our business and our financial performance. See "Risk Factors — Risks Relating to Our Industry and Our Business — Our limited operating history may not serve as an adequate basis to judge our future prospects and results of operations."

BASIS OF PRESENTATION

Our combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flow for the Track Record Period have been prepared on a combined basis and include the results of operations of our Company and our subsidiaries for the Track Record Period as if the current company structure had been in existence throughout the Track Record Period. Our combined statements of financial position as of December 31, 2008, 2009 and 2010 have been prepared to present our combined assets and liabilities as of those dates. All intra-company transactions and balances are eliminated on combination.

FINANCIAL INFORMATION

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We believe the most significant factors that directly or indirectly affect our financial performance and results of operations include:

Waterway Transportation Infrastructure Spending in China

We operate primarily in the dredging and construction industries in China. In the past, we have benefited significantly from the PRC government's spending on transportation infrastructure, principally the construction and improvement of ports and waterways. The PRC government's spending on waterway transportation infrastructure grew at a CAGR of 11.2% from 2005 to 2010. To cope with the demand of sustained economic growth, the PRC government allocated RMB3.8 trillion for transportation projects, including ports and waterways, under its Eleventh Five Year Plan. We expect that continued spending on waterway transportation infrastructure construction by the PRC government will generate significant business opportunities for us in the coming few years. If the PRC government decides to reduce spending on waterway transportation infrastructure projects in China, our revenue growth could slow or our revenue could decline.

New Contracts and Business Growth

To sustain our revenues and the growth of our business, we must continually expand our customer base, renew existing contracts and secure new contracts with existing and new customers.

For large-scale dredging projects, our customers typically divide the work into projects covering different phases and offer individual contracts for each project. Each contract only covers a portion of the dredging work for an entire development project and may be short-term in nature. Therefore, most of our contracts with customers are short-term, having a term of less than 12 months. We must periodically seek to enter into new contracts or renew our contracts when our current contracts are completed. Due in part to our good customer relationships and reputation for delivering good quality services, we have not experienced difficulty in renewing our contracts with our existing customers or securing new contracts with existing and new customers. However, if we are unable to renew our existing contracts or secure new contracts, our business and operating results may be materially and adversely affected. See "Risk Factors — Risks Relating to Our Industry and Our Business — Most of our contracts with customers are short-term in nature and are not automatically renewed. If we fail to renew our existing contracts or secure new contracts on a continual basis, our operating results may be materially and adversely affected" for details.

We have successfully developed certain key customer relationships to become important strategic partnerships for securing new business. For example, in January 2008 and May 2010, we entered into strategic partnership agreements with TDC Port and CWWEC, respectively, to jointly bid for and perform dredging projects. We also seek to undertake long-term dredging projects to enhance the stability of our income. For example, in July 2010, we entered into a dredging contract with CWWEC for capital and reclamation dredging work for the port expansion project in Jingtang Harbor, Hebei Province with a total contract value of RMB800.0 million. We also entered into a non-binding five-year framework agreement with Haixing and a non-binding letter of intent with the Dongying Committee in August 2010 to perform capital and reclamation dredging work

FINANCIAL INFORMATION

for projects in Yancheng City, Jiangsu Province and Dongying Harbor, Shandong Province, respectively. The framework agreement and letter of intent are not legally binding and are subject to signing of definitive contracts, and thus such projects may not proceed and generate any revenue.

Competition

Our performance is affected by competition in the markets where we operate. Our ability to sustain our profitability and growth will primarily depend on our ability to compete with and differentiate ourselves from our competitors. China's dredging market is largely dominated by state-owned enterprises, which had an estimated market share of 81.9% in 2010, as measured by dredging volume, according to the Frost & Sullivan Report. However, privately owned enterprises in the dredging industry are growing rapidly.

The dredging business is capital intensive, requires highly specialized equipment and has significant barriers to entry. State-owned dredging companies may have advantages over privately owned dredging companies, including us, in terms of equipment, capacity and capital. Meanwhile, in our experience, small dredging companies are often more competitive on pricing than big state-owned dredging companies. If competition increases in the dredging industry, we may experience difficulty in successfully competing against state-owned dredging companies to secure contracts and in addition, we may experience some pricing competition with other privately owned dredging companies. However, we believe that we have a more flexible operating structure than big state-owned dredging companies and that our structure allows us to respond quickly to changing market conditions. Moreover, we believe that we possess better project management skills, which allow us to provide better quality services in order to compete well with local state-owned and privately owned dredging companies.

CCCC and our other customers outsource work to us. Since our customers also provide dredging services, our customers are also our competitors. We believe that we have developed close relationships with our customers through providing quality work and that they will not easily replace us with other subcontractors. Nonetheless, if our customers expand their capacity, cease outsourcing to us or replace us with other subcontractors, our net revenues and profitability would be substantially reduced.

We intend to leverage our strong relationships with our customers and our advanced technical know-how to obtain more maintenance and environmental protection dredging work and thereby capitalize on the PRC government's plans to increase spending on transportation infrastructure construction and raise its environmental protection standards. While we hope that maintenance and environmental protection dredging services will contribute to our revenue growth, we will face competition in these new areas from dredging companies that have more experience in these lines of business than us.

Expansion of Dredging Capacity

Growth in our revenue depends to a large extent on our ability to expand our dredging capacity. We have been addressing our capacity constraints through purchasing and chartering additional dredgers from third parties. For the years ended December 31, 2008, 2009 and 2010, our chartering cost amounted to RMB9.9 million, RMB20.4 million and RMB72.0 million, respectively, representing 13.8%, 9.2%, and 35.1%, respectively, of our total operating costs in

FINANCIAL INFORMATION

these periods. In 2010, we acquired two dredgers with a total hourly dredging capacity of 5,500 cubic meters for an aggregate amount of RMB346.0 million. In addition, we have engaged subcontractors to supplement our capacity on a short-term basis.

In the next five years, we plan to continue our strategic and cost-efficient practice of both purchasing and chartering dredgers. The availability of spare dredging capacity will often determine which projects and contracts we accept, and we believe that expanding our dredging capacity may enable us to increase our revenue in the foreseeable future. Our ability to successfully expand our capacity may be affected by a number of factors, including the availability of dredgers for purchasing or chartering, the availability of skilled labor for any new dredgers we purchase or charter, and availability of funding. Please refer to the section headed “Business — Facilities and Equipment” of this prospectus for further details.

Subcontracting Charges

Subcontracting charges represented the single largest component of our operating cost for each of the years ended December 31, 2008 and 2009, accounting for 47.4% and 68.7%, respectively, of our operating cost in these years. In the year ended December 31, 2010, our subcontracting charges decreased significantly and accounted for only 6.2% of our operating cost in that year. Generally, subcontracting our work to third parties results in higher costs than performing the work ourselves through the use of our own dredgers or chartered dredgers. In the Track Record Period, we provided a portion of our dredging services through subcontractors due to our capacity constraints. However, in the year ended December 31, 2010, this portion was substantially lower as we increased our capacity of owned and chartered vessels. Our subcontractors are other dredging companies in China. Please refer to the sections headed “Business — Subcontracting” and “Business — Project Sourcing and Management — Subcontractors” of this prospectus for further details.

As we increase our dredging capacity, we intend to continue to reduce our use of subcontractors. Subcontracting charges as a percentage of our operating cost decreased from 68.7% for 2009 to 6.2% for 2010. Our reduced use of subcontractors in 2010 helped us to achieve a higher gross profit margin in that year than in 2009.

Fuel Cost

Fuel cost represented the second largest component of our operating cost during the Track Record Period, accounting for 25.7%, 12.1% and 29.8% of our operating cost for each of the years ended December 31, 2008, 2009 and 2010, respectively. While fuel prices can fluctuate significantly, we have not experienced any significant difficulties in obtaining sufficient quantities of fuel at commercially viable prices. Most of our contracts with our customers are fixed-price contracts that typically do not contain material price pass-through provisions, although we are, at times, able to pass on increases in the cost of materials when we renew or enter into new contracts.

Fuel prices increased significantly over the Track Record Period. Our fuel cost also increased over the Track Record Period, driven by increased fuel prices and our expansion of capacity through chartering and purchasing additional dredgers. We have begun and intend to continue to limit our exposure to raw material price volatility by entering into contracts with customers which contain escalation clauses to cover increases in the cost of fuel. These escalation clauses would

FINANCIAL INFORMATION

require us to bear increases in fuel costs up to an agreed upon limit and our customers to bear amounts in excess thereof to help mitigate the impact on us of significant fuel price increases. To the extent that we are unable to promptly pass any price increases on to our customers, we expect that fuel cost will continue to affect our gross profit margins.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare financial statements in conformity with HKFRSs issued by the HKICPA, which require us to make estimates and assumptions that affect the amounts reported in our combined financial statements and related notes. We periodically evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from services income is recognized when services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective applicable interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Impairments

At the end of each reporting period, we review the carrying amounts of our tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is immediately recognized as income.

FINANCIAL INFORMATION

Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Tax currently payable is based on taxable profit for a given year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and further excludes items that are not taxable or tax deductible. Our liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

FINANCIAL INFORMATION

DESCRIPTION OF CERTAIN ITEMS OF THE STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Revenue by business segment

During the Track Record Period, we generated our revenue from two operating segments: (i) our dredging business and (ii) our dredging-related construction business.

The following table sets forth our revenue contributed by each of our business segments and as a percentage of our total revenue for the periods indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Dredging business	97,804	73.3%	287,967	83.1%	362,766	96.8%
Dredging-related construction business	35,545	26.7%	58,582	16.9%	12,117	3.2%
Total revenue	133,349	100.0%	346,549	100.0%	374,883	100.0%

Dredging Business. We derive revenue in our dredging business primarily from the provision of dredging services, including capital and reclamation dredging, maintenance dredging and related consultation services. Our customers are typically state-owned enterprises.

Dredging-related Construction Business. We derive revenue in our dredging-related construction business primarily from ancillary work related to the dredging services which we perform for customers of our dredging business. Such construction services include small-scale land reclamation construction, temporary road construction and soil compaction.

Revenue by type of dredging

The following table sets forth revenue contributed by each of our capital and reclamation dredging and maintenance dredging businesses and as a percentage of our total revenue for the periods indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Capital and reclamation dredging ⁽¹⁾	133,349	100.0%	344,552	99.4%	372,264	99.3%
Maintenance dredging ⁽¹⁾	—	—	1,997	0.6%	2,619	0.7%
Total revenue⁽¹⁾	133,349	100.0%	346,549	100.0%	374,883	100.0%

(1) Revenue from both dredging business and dredging-related construction business is included in capital and reclamation dredging, maintenance dredging and total revenue.

FINANCIAL INFORMATION

Revenue by project

The following table sets forth revenue contributed by each of our projects and as a percentage of our total revenue for the periods indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Caofeidian Industrial Area	100,828	75.6%	259,450	74.9%	183,068	48.8%
Dalian Changxingdao Harbor . . .	28,930	21.7%	47,975	13.8%	59,008	15.8%
Qingdao Industrial Area	—	—	35,609	10.3%	—	—
Jingtang Harbor	—	—	—	—	101,262	27.0%
Tianjin Port	—	—	—	—	10,642	2.8%
Others	3,591	2.7%	3,515	1.0%	20,903	5.6%
Total revenue	133,349	100.0%	346,549	100.0%	374,883	100.0%

Operating Cost

Our operating cost primarily includes subcontracting charges, fuel cost, chartering cost, staff cost, depreciation, spare parts, repairs and insurance and consultancy fees. Subcontracting charges, fuel cost, chartering cost and spare parts, repairs and insurance constituted the four largest components of our operating cost, collectively amounting to over 90% of our total operating cost in 2008 and 2009 and over 85% of our total operating cost in 2010.

The following table sets forth the amount and percentage of our operating cost contributed by each of our business segments for the period indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Dredging business	45,448	63.1%	178,763	80.2%	195,103	95.3%
Dredging-related construction business	26,539	36.9%	44,174	19.8%	9,720	4.7%
Total operating cost	71,987	100.0%	222,937	100.0%	204,823	100.0%

FINANCIAL INFORMATION

The following table sets forth the components of our operating cost for the periods indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Operating cost:						
Subcontracting charges	34,123	47.4%	153,186	68.7%	12,604	6.2%
Fuel cost	18,467	25.7%	26,994	12.1%	61,070	29.8%
Chartering cost	9,948	13.8%	20,408	9.2%	71,957	35.1%
Staff cost	3,562	4.9%	6,832	3.0%	16,737	8.2%
Depreciation	1,361	1.9%	2,104	0.9%	10,815	5.3%
Spare parts, repairs and insurance	4,262	5.9%	13,213	6.0%	31,496	15.3%
Consultancy fees	264	0.4%	200	0.1%	144	0.1%
Total operating cost	71,987	100.0%	222,937	100.0%	204,823	100.0%

Dredging business. Our operating cost for our dredging business primarily consists of subcontracting charges, fuel cost, chartering cost, spare parts, repairs and insurance, staff cost, depreciation and consultancy fees.

The following table sets forth the components of our operating cost for our dredging business for the periods indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Operating cost:						
Subcontracting charges	7,584	16.7%	109,012	61.0%	2,884	1.5%
Fuel cost	18,467	40.6%	26,994	15.1%	61,070	31.3%
Chartering cost	9,948	21.9%	20,408	11.4%	71,957	36.9%
Staff cost	3,562	7.8%	6,832	3.8%	16,737	8.6%
Depreciation	1,361	3.0%	2,104	1.2%	10,815	5.5%
Spare parts, repairs and insurance	4,262	9.4%	13,213	7.4%	31,496	16.1%
Consultancy fees	264	0.6%	200	0.1%	144	0.1%
Total	45,448	100.0%	178,763	100.0%	195,103	100.0%

Dredging-related construction business. We subcontracted all of our dredging-related construction work to third parties during the Track Record Period. Therefore, our operating cost from our dredging-related construction business only consisted of subcontracting charges.

FINANCIAL INFORMATION

Gross Margin

The following table sets forth the gross profit margin of each of our business segments for the period indicated.

	<u>Years ended December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Dredging business	53.5%	37.9%	46.2%
Dredging-related construction business	25.3%	24.6%	19.8%
Overall	46.0%	35.7%	45.4%

In addition, our different projects are subject to different risks and therefore tend to have different gross profit margins. Our gross profit margin for a particular project may also vary from one year to another due to various reasons, including competition for the project, the type of dredgers employed, the dredger capacity and working efficiency rate, dredger repair and maintenance requirements, the geological condition of a particular project site and the subcontracting ratio for the project.

Marketing and Promotion Expenses

Our marketing and promotion expenses primarily consist of travel and entertainment expenses attributable to our bidding and selling activities.

Administrative Expenses

Our administrative expenses primarily consist of depreciation, rental expenses, staff benefits and allowance, administrative staff cost, and stamp duty. In the year ended December 31, 2010, the largest components of our administrative expenses were other expenses and charges paid to local government. During 2010, we undertook a corporate reorganization and established an office in Hong Kong, both of which were done in preparation for the Global Offering. We incurred administrative expenses in connection with this reorganization, mainly including exchange losses, and the establishment of our Hong Kong office, primarily consisting of salaries, rental and other office expenses. In addition, local government authorities charged us additional administrative fees in 2010 as our business expanded. In the years ended December 31, 2008 and 2009, the largest components of our administrative expenses were depreciation, and staff benefits and allowance.

Other Income

Other income primarily consists of rental income from sub-leases of chartered dredgers and leases of self-owned plant and machinery, less related rental expenses and business tax.

Finance Costs

Finance costs primarily consist of interest expense on bank borrowings and discounted bills.

Income Tax

Income tax primarily represents income tax payable by us under relevant PRC income tax rules and regulations.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The following table sets forth a summary, for the periods indicated, of our combined results of operations. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Years ended December 31,		
	2008	2009	2010
	(in thousands of RMB, except earnings per share data)		
Combined income statements			
Revenue	133,349	346,549	374,883
Operating cost	<u>(71,987)</u>	<u>(222,937)</u>	<u>(204,823)</u>
Gross profit	61,362	123,612	170,060
Other income	4,292	4,803	26
Marketing and promotion expenses	(820)	(1,779)	(2,979)
Administrative expenses	(2,093)	(3,348)	(6,267)
Listing expenses	—	—	(21,531)
Finance costs	<u>(816)</u>	<u>(1,317)</u>	<u>(3,640)</u>
Profit before tax	61,925	121,971	135,669
Income tax expense	<u>(16,261)</u>	<u>(33,130)</u>	<u>(40,639)</u>
Profit and total comprehensive income for the year	<u><u>45,664</u></u>	<u><u>88,841</u></u>	<u><u>95,030</u></u>
Earnings per share:			
Basic (RMB)	<u><u>0.57</u></u>	<u><u>0.80</u></u>	<u><u>0.38</u></u>

Year ended December 31, 2010 compared to the year ended December 31, 2009

Revenue. Our revenue increased by 8.2% from RMB346.5 million for the year ended December 31, 2009 to RMB374.9 million for the same period in 2010, due to an increase in revenue from our dredging business, partially offset by a decrease in revenue from our dredging-related construction business.

- Revenue from our dredging business increased from RMB288.0 million in the year ended December 31, 2009 to RMB362.8 million in the year ended December 31, 2010. Revenue from our dredging business as a percentage of our revenue increased from 83.1% in 2009 to 96.8% in 2010. These increases were primarily due to the continued growth of our dredging business. We signed additional new contracts to undertake dredging work for the Caofeidian Industrial Area, Dalian Changxingdao Harbor, Jingtang Harbor, Yancheng City, Yingkou Harbor, Tianjin Port and Hainan Yangpu Area projects in 2010. The increase in the percentage contribution of revenue from our dredging business in 2010 was also due to our increased focus on our dredging business relative to our dredging-related construction business in this year. We expect revenue from our dredging business to continue to account for the majority of our revenue going forward.
- Revenue from our dredging-related construction business decreased from RMB58.6 million in 2009 to RMB12.1 million in 2010. Revenue from our dredging-related construction business as a percentage of our revenue decreased from 16.9% in 2009 to 3.2% in 2010. These

FINANCIAL INFORMATION

decreases were primarily due to the rapid expansion of our dredging business and our focus on utilizing our capacity for dredging services which enjoy higher gross profit margins than dredging-related construction services.

Operating cost. Our operating cost decreased by 8.1% from RMB222.9 million in 2009 to RMB204.8 million in 2010. The decrease in our operating cost was primarily due to a significant decrease in sub-contracting charges from RMB153.2 million in 2009 to RMB12.6 million in 2010, partially offset by increases in chartering cost from RMB20.4 million in 2009 to RMB72.0 million in 2010 and in fuel cost from RMB27.0 million in 2009 to RMB61.1 million in 2010.

Gross profit. As a result of the foregoing, our gross profit increased by 37.6% from RMB123.6 million in 2009 to RMB170.1 million in 2010, and our gross profit margin increased from 35.7% in 2009 to 45.4% in 2010. The increase in our gross profit margin was principally due to a significant decrease in subcontracting costs as we decreased the use of subcontractors by expanding our capacity and improving our average dredger working efficiency rate. The gross profit margins of our major dredging projects ranged from 24.1% to 57.2% in 2010, as compared to 11.7% to 49.3% in 2009. The gross profit margin of our lowest margin project increased from 2009 to 2010 due to a lower subcontracting ratio, which was enabled by our expanded capacity during this period. The highest gross profit margin of our major projects increased from 2009 to 2010 due to more favorable geological conditions including more stable seabed formations which allowed for easier extraction of sediment in a project area, which enabled us to achieve a high working efficiency rate on this project.

Other income. Our other income decreased by 99.5% from RMB4.8 million in 2009 to RMB26,000 in 2010. This decrease was primarily due to the fact that we had no rental income from sub-leases of chartered dredgers or leases of self-owned plant and machinery in 2010.

Marketing and promotion expenses. Our marketing and promotion expenses increased by 67.5% from RMB1.8 million in 2009 to RMB3.0 million in 2010, primarily due to an increase in travel expenses as our business continued to expand, partially offset by a decrease in entertainment expenses.

Administrative expenses. Our administrative expenses increased by 87.2% from RMB3.3 million in 2009 to RMB6.3 million in 2010. This increase was primarily due to an increase of RMB1.2 million in charges paid to local government and an increase of RMB1.2 million in other expenses incurred in connection with our reorganization, mainly including exchange losses, and establishment of a Hong Kong office, which we undertook to prepare for the Global Offering.

Listing expenses. Such expenses represent the listing expenses incurred by our Group in 2010 in relation to the preparation of the Global Offering. No such expenses were recorded for the year 2008 and 2009.

Finance cost. Our finance cost increased by 176.4% from RMB1.3 million in 2009 to RMB3.6 million in 2010, primarily due to an increase of RMB1.0 million in interest expense on bank borrowings and an increase of RMB1.3 million in interest expenses on discounted bills.

Profit before tax. As a result of the cumulative effect of the above factors, our profit before tax increased by 11.2% from RMB122.0 million in 2009 to RMB135.7 million in 2010.

FINANCIAL INFORMATION

Income tax expenses. Our income tax expenses increased by 22.7% from RMB33.1 million in 2009 to RMB40.6 million in 2010, primarily due to an increase in our taxable income. Our effective tax rate increased from 27.2% in 2009 to 30.0% in 2010 primarily due to the establishment of Xiangyu PRC, a PRC wholly foreign-owned enterprise, in June 2010. Xiangyu PRC incurred a loss in its first year of operation which could not be offset against the profits of our PRC Operational Entity.

Profit and total comprehensive income for the year. As a result of the cumulative effect of the above factors, our profit and total comprehensive income for the year increased by 7.0% from RMB88.8 million in 2009 to RMB95.0 million in 2010. Our net margin decreased from 25.6% in 2009 to 25.3% in 2010 primarily due to increases in our listing expenses, income tax, marketing and promotion expenses, administrative expenses and finance costs, partially offset by an increase in our gross profit margin from 35.7% to 45.4% in such period.

Year ended December 31, 2009 compared to year ended December 31, 2008

Revenue. Our revenue increased by 159.9% from RMB133.3 million in 2008 to RMB346.5 million in 2009 due to increases in revenues from both our dredging business and dredging-related construction business.

- Revenue from our dredging business increased significantly from RMB97.8 million in 2008 to RMB288.0 million in 2009. Revenue from our dredging business as a percentage of our revenue increased from 73.3% in 2008 to 83.1% in 2009. These increases were primarily due to the continued growth of our dredging business. We signed additional new contracts for the Caofeidian Industrial Area project and Dalian Changxingdao Harbor project and commenced dredging work for the Qingdao Industrial Area project.
- Revenue from our dredging-related construction business increased by 64.8% from RMB35.5 million in 2008 to RMB58.6 million in 2009. The increase was primarily due to the growth of our dredging-related construction business, mainly in connection with the Caofeidian Industrial Area project. Revenue from our dredging-related construction business as a percentage of our revenue decreased from 26.7% in 2008 to 16.9% in 2009. The decrease was primarily a result of the higher growth of our dredging business as compared to that of our dredging-related construction business.

Operating cost. Our operating cost increased significantly from RMB72.0 million in 2008 to RMB222.9 million in 2009. The increase in our operating cost primarily reflected increases in the following components:

- an increase in subcontracting charges from RMB34.1 million in 2008 to RMB153.2 million in 2009, as we increased our use of subcontractors due to increases in demand for our services arising from short-term contracts and capacity constraints that we experienced;
- an increase in fuel cost from RMB18.5 million in 2008 to RMB27.0 million in 2009, reflecting the continued expansion of our business; and
- an increase in chartering cost from RMB9.9 million in 2008 to RMB20.4 million in 2009, as we increased the number of chartered dredgers to supplement our dredging capacity in response to increases in long-term contracts.

FINANCIAL INFORMATION

Gross profit. As a result of the foregoing, our gross profit increased by 101.4% from RMB61.4 million in 2008 to RMB123.6 million in 2009. However, our gross profit margin decreased from 46.0% in 2008 to 35.7% in 2009. The decrease in gross profit margin was principally due to the increase in operating cost of our dredging projects, which was primarily driven by increases in subcontracting costs. The gross profit margins of our major dredging projects ranged from 11.7% to 49.3% for 2009, compared to 44.2% to 61.2% for 2008. The decrease in the gross profit margins of our major dredging projects in 2009 as compared to 2008 was generally due to our greater use of subcontracting since our work orders increased at a time when our dredging capacity had not yet been built up accordingly. In addition, the significant decrease in the gross profit margin of our lowest-margin major dredging project during this period was also due to operational difficulties and an unanticipated need to perform repair and maintenance on one of our dredgers, which created additional costs, as well as unanticipated changes in the project's geological landscape, which increased idle time costs.

Other income. Our other income increased by 11.9% from RMB4.3 million in 2008 to RMB4.8 million in 2009, primarily due to a decrease in income from leases of self-owned plant and machinery, partially offset by an increase in gross rental income from sub-leases of chartered dredgers.

Marketing and promotion expenses. Our marketing and promotion expenses increased by 117.0% from RMB0.8 million in 2008 to RMB1.8 million in 2009, primarily due to an increase in travel and entertainment expenses as our business continued to expand.

Administrative expenses. Our administrative expenses increased by 60.0% from RMB2.1 million in 2008 to RMB3.3 million in 2009. This increase was primarily due to increases in depreciation of 34.4% to RMB1.2 million in 2009 from RMB0.9 million in 2008, due to additional motor vehicles acquired for the expansion of our business and increases in staff benefits and allowance and administrative staff cost.

Finance cost. Our finance cost increased by 61.4% from RMB0.8 million in 2008 to RMB1.3 million in 2009, primarily due to an increase in interest expense on bank borrowings as a result of an increase in bank borrowings of RMB20.0 million for working capital purposes, partially offset by a decrease in interest expense on discounted bills.

Profit before tax. As a result of the cumulative effect of the above factors, our profit before tax increased by 97.0% from RMB61.9 million in 2008 to RMB122.0 million in 2009.

Income tax expenses. Our income tax expenses increased by 103.7% from RMB16.3 million in 2008 to RMB33.1 million in 2009, primarily as a result of the increase in our taxable income. Our effective tax rate for the years ended December 31, 2008 and 2009 was 26.3% and 27.2%, respectively.

Profit for the year and total comprehensive income for the year. As a result of the cumulative effect of the above factors, our profit for the year and total comprehensive income for the year increased by 94.6% from RMB45.7 million in 2008 to RMB88.8 million in 2009. Our net margin decreased from 34.2% in 2008 to 25.6% in 2009. The decrease in our net margin was in line with a decrease in our gross profit margin from 46.0% in 2008 to 35.7% in 2009.

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings

The following table sets out our bank borrowings as of December 31, 2008, 2009 and 2010, respectively:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Secured bank borrowings	7,500	27,500	40,000
Total	<u>7,500</u>	<u>27,500</u>	<u>40,000</u>

All of our secured bank borrowings are denominated in Renminbi and repayable within one year. Our secured borrowings in the years ended December 31, 2008 and 2009 carried a floating interest rate with reference to the benchmark borrowing rate of PBOC plus certain basis points, and our secured borrowings in 2010 carried fixed interest rates. The effective interest rates of our secured bank borrowings were 7.99%, 6.37% and 4.87%–5.31%, respectively, in the years ended December 31, 2008, 2009 and 2010. Throughout the Track Record Period, most of our secured bank borrowings were supported by personal guarantees provided by Mr. Liu and the pledge of certain properties owned by certain related parties. On September 17, 2010, the pledge of properties was released and has been replaced with a corporate guarantee provided by Xiangyu PRC. In addition, Mr. Liu's personal guarantee has been released.

On March 18, 2011, we entered into a loan extension agreement with Jiangsu Yancheng Huanghai Agricultural Commercial Bank to extend the expiry date of one of our loans from March 20, 2011 to August 20, 2011. Under the original loan agreement, the full principal amount of RMB20 million became due on March 20, 2011. Pursuant to the loan extension agreement, the interest rate of the loan was changed from 4.8675% per month during the original term of the loan to 7.3199% per annum during the extension term of the loan.

As of April 30, 2011, we had aggregate outstanding borrowings of approximately RMB53.5 million comprised of (i) guaranteed bank borrowings of approximately RMB40.0 million; and (ii) amount due to a director of approximately RMB13.5 million. The guaranteed bank borrowings were guaranteed by a corporate guarantee provided by Xiangyu PRC. As of April 30, 2011, we had fully drawn down our RMB40.0 million bank borrowings and had no unutilized banking facilities. We will fully pay the amount due to a director before the date of this prospectus.

The Directors consider that, apart from the pledge of our Group's assets to support the financing granted to Wangji Limited, which is expected to be released on or prior to the Listing, our other related party transactions, *i.e.*, the lease of certain properties by certain related parties to our Group and the above-mentioned pledge of certain properties owned by certain related parties, as well as the personal guarantee provided by Mr. Liu are on normal commercial terms or on terms more or no less favorable to our Group.

FINANCIAL INFORMATION

Contingent Liabilities

As of the Latest Practicable Date, we did not have significant contingent liabilities.

Pledge of Assets

In connection with the Pre-IPO Investment Agreements, (i) 100% of the issued share capital of each of our Company, Power Wealth BVI and Power Wealth HK, (ii) the entire registered capital of Xiangyu PRC and (iii) the entire ownership of Xiangyu PRC in each of the Kaijin No. 1 and Kaijin No. 3 dredgers were pledged to the lenders as collateral for debt of Wangji Limited. Pursuant to the Pre-IPO Investment Agreements, the collateral including all the shares of our Company, Power Wealth BVI and Power Wealth HK shall be released upon Listing. In addition, the lenders have also provided in-principal consents to the release of the collateral including all the registered capital of Xiangyu PRC and 50% of the ownership of Kaijin No. 1 and Kaijin No. 3 before Listing. See “History, Reorganization and Corporation Structure — Pre-IPO Investments” for details.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at the close of business on April 30, 2011, our Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities. The Directors confirm that there has been no material change in our Company’s indebtedness since April 30, 2011.

Gearing Ratio

The following table sets forth the gearing ratio for and as of the respective dates.

	As of December 31,		
	2008	2009	2010
Gearing ratio ⁽¹⁾	4.7%	7.1%	6.0%

(1) The ratio of total debt to total assets

The increase in our gearing ratio from December 31, 2008 to December 31, 2009 was primarily due to increased bank borrowings to fund our capital expenditures in connection with our continued capacity expansion. The decrease in our gearing ratio from December 31, 2009 to December 31, 2010 was primarily due to the capital injection by Mr. Liu in September 2010.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations and growth primarily with net cash generated from our operations and bank borrowings. As of December 31, 2010, we had RMB12.5 million in cash and cash equivalents, most of which were denominated in Renminbi. Our cash and cash equivalents primarily consist of cash on hand and bank balances. As of April 30, 2011, we had cash and cash equivalents of RMB15.2 million. Taking into account the net proceeds available to us from the Global Offering, cash and cash

FINANCIAL INFORMATION

equivalents on hand and our operating cash flow, our Directors are of the opinion that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Net cash from operating activities	44,412	45,218	75,663
Net cash used in investing activities.	(47,092)	(63,123)	(91,446)
Net cash from financing activities	1,988	18,696	26,539
Net increase/(decrease) in cash and cash equivalents	(692)	791	10,756
Cash and cash equivalents at the end of the period.	973	1,764	12,520

During the Track Record Period, we maintained adequate working capital for our operations as cash and cash equivalents on hand and cash flows from operations were sufficient to meet our cash needs with minimal borrowing. In 2008, 2009 and 2010, we generated net cash from operating activities of RMB44.4 million, RMB45.2 million and RMB75.7 million, respectively, and as of December 31, 2008, 2009 and 2010, we had net current assets of RMB15.8 million, RMB95.7 million and RMB59.6 million, respectively. Although our gross profit margin decreased from 46.0% in 2008 to 35.7% in 2009, principally due to the increase in operating cost of our dredging projects in 2009, our gross profit margin increased to 45.4% in 2010, principally due to a significant decrease in subcontracting costs as we decreased the use of subcontractors by expanding our own dredging capacity, and an improvement of our average dredger working efficiency rate. While we expect our gross profit margin to decrease somewhat in future periods due to start-up costs relating to projects that started in late 2010 and early 2011 and other operating costs, we do not expect that this decrease will have any material adverse effect on our ability to maintain adequate working capital based on our expected cash and cash equivalents on hand and our operating cash flow. Similarly, our current ratio (the ratio of current assets to current liabilities) increased from 1.2 as of December 31, 2008 to 1.4 as of December 31, 2009, primarily due to an increase in trade receivables, but decreased to 1.3 as of December 31, 2010. Our current ratio was significantly but temporarily reduced in mid 2010 due to our purchase of two dredgers in the second quarter of 2010, which was financed by a short-term loan from our Director. Going forward we do not expect our current ratio to have any material adverse effect on our ability to maintain adequate working capital based on our expected cash and cash equivalents on hand and our operating cash flow. Furthermore, while our average trade receivable turnover days increased from 87 in 2008 to 146 and 210 in 2009 and 2010, respectively, our liquidity was not materially adversely affected as our average trade payable turnover days were comparable in the respective periods, at 102, 124 and 194 in 2008, 2009 and 2010, respectively and therefore, the timing of our cash inflows and outflows relating to operating activities was generally consistent in each of those years. Our liquidity has also been supported by our maintenance of a low gearing ratio (the percentage of total debt to total assets) of 4.7%, 7.1% and 6.0% in 2008, 2009 and 2010, respectively, which we believe represents a relatively low level of debt to service in comparison to the size of our Company. Since we do not have inventory, our ratio of current assets less stock to current liabilities, or quick ratio, was substantially the same as our current ratio during the Track Record Period and therefore did not impact on our liquidity.

FINANCIAL INFORMATION

Operating Activities

Net cash from operating activities reflects profit before income tax, adjusted for (i) non-cash items, including depreciation of property, plant and equipment, finance costs and bank interest income and (ii) effects of changes in working capital, including changes in rental deposits, changes in trade and other receivables and changes in trade and other payables.

We had a net cash inflow from operating activities of RMB75.7 million in 2010, primarily resulting from profit before income tax of RMB135.7 million, as adjusted by: (i) income statement items with non-cash effects of RMB15.2 million, (ii) an outflow of RMB46.1 million for working capital adjustments, and (iii) income tax paid of RMB29.1 million. Working capital adjustments generally included: (i) a decrease in rental deposits of RMB3.0 million, (ii) an increase in trade and other receivables of RMB50.2 million primarily due to an increase in revenue and (iii) an increase in trade and other payables of RMB1.1 million primarily due to an increase in operating cost as a result of the continued expansion of our dredging services business.

We had a net cash inflow from operating activities of RMB45.2 million in 2009, primarily resulting from profit before income tax of RMB122.0 million, as adjusted by: (i) income statement items with non-cash effects of RMB4.6 million, (ii) an outflow of RMB81.1 million for working capital adjustments, and (iii) income tax paid of RMB0.3 million. Working capital adjustments generally included: (i) an increase in rental deposits of RMB2.0 million, (ii) an increase in trade and other receivables of RMB164.5 million primarily due to an increase in revenue and (iii) an increase in trade and other payables of RMB85.5 million primarily due to increase in operating cost as a result of the continued expansion of our business.

We had a net cash inflow from operating activities of RMB44.4 million in 2008, primarily resulting from profit before income tax of RMB61.9 million, as adjusted by: (i) income statement items with non-cash effects of RMB3.1 million, (ii) an outflow of RMB20.5 million for working capital adjustments, and (iii) income tax paid of RMB0.1 million. Working capital adjustments generally included: (i) an increase in rental deposits of RMB1.0 million, (ii) an increase in trade and other receivables of RMB57.5 million primarily due to an increase in revenue and (iii) an increase in trade and other payables of RMB38.0 million primarily due to increase in operating cost as a result of the continued expansion of our business.

Investing Activities

Net cash used in investing activities primarily reflected purchases of property, plant and equipment, deposits paid for acquisition of property, plant and equipment and advances to a Director, offset by repayments from a Director and interests received.

Net cash used in investing activities in 2010 was RMB91.4 million, which was attributable to the following factors: (i) advances to a Director of RMB168.0 million and (ii) purchases of property, plant and equipment of RMB1.5 million, partially offset by repayment from a Director of RMB78.3 million.

Net cash used in investing activities in 2009 was RMB63.1 million, which was attributable to the following factors: (i) advances to a Director of RMB234.1 million, (ii) deposits paid for acquisition of property, plant and equipment of RMB9.8 million and (iii) purchases of property, plant and equipment of RMB0.4 million, partially offset by repayment from a Director of RMB181.2 million.

FINANCIAL INFORMATION

Net cash used in investing activities in 2008 was RMB47.0 million, which was attributable to the following factors: (i) advances to a Director of RMB138.3 million, (ii) deposits paid for acquisition of property, plant and equipment of RMB18.7 million and (iii) purchases of property, plant and equipment of RMB6.3 million, partially offset by repayment from a Director of RMB116.2 million.

Financing Activities

Net cash from financing activities primarily includes new bank borrowings, capital injection, advances from a Director, offset by repayments of secured bank borrowings, repayments to a Director and interests paid.

Net cash generated by financing activities in 2010 was RMB26.5 million, which was primarily attributable to (i) proceeds of RMB173.5 million from the issuance of shares by Power Wealth BVI; (ii) advances from a Director of RMB65.2 million and (iii) new bank borrowings of RMB40.0 million, partially offset by (i) repayment to a Director of RMB221.1 million; (ii) repayments of secured bank borrowings of RMB27.5 million and (iii) interests paid of RMB3.6 million.

Net cash generated by financing activities in 2009 was RMB18.7 million, which was primarily attributable to new bank borrowings of RMB27.5 million, partially offset by (i) repayments of secured bank borrowings of RMB7.5 million and (ii) interest paid of RMB1.3 million.

Net cash generated by financing activities in 2008 was RMB2.0 million, which was primarily attributable to the following factors: (i) new bank borrowings of RMB7.5 million, (ii) advances from a Director of RMB4.9 million and (iii) capital injection of RMB3.0 million, partially offset by (i) repayments of secured bank borrowings of RMB7.5 million and (ii) repayments to a Director of RMB5.1 million.

CAPITAL COMMITMENTS

We entered into a non-binding letter of intent to purchase one dredger in 2008. Deposits in connection with this non-binding letter of intent of RMB18.7 million and RMB28.5 million were recorded as at December 31, 2008 and 2009, respectively. We acquired this dredger in 2010. We had a capital commitment of RMB117,000 outstanding as of December 31, 2010 in respect of a leasehold improvement for the establishment of our office in Hong Kong.

FINANCIAL INFORMATION

OTHER COMMITMENTS

At the end of the respective reporting periods, we were committed to make the following minimum charter payments in respect of the chartered dredgers under the charter agreements, which fall due as follows:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Within one year	17,109	13,009	43,064
In the second to fifth year inclusive	2,310	13,200	—
Over five years	—	—	—
Total	<u>19,419</u>	<u>26,209</u>	<u>43,064</u>

At the end of the respective reporting periods, we were committed to make the following minimum payments in respect of our office premises under our non-cancellable operating leases, which fall due as follows:

	At of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Within one year	—	51	858
In the second to fifth year inclusive	—	204	832
Over five years	—	306	245
Total	<u>—</u>	<u>561</u>	<u>1,935</u>

At the end of the respective reporting periods, we subleased our chartered dredgers and leased some of our plant and machinery to third parties in return for the following future minimum lease payments:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Within one year	2,800	—	—
In the second to fifth year inclusive	—	—	—
Total	<u>2,800</u>	<u>—</u>	<u>—</u>

CAPITAL EXPENDITURES

We made capital expenditures of RMB27.1 million, RMB0.4 million and RMB347.5 million in the years ended December 31, 2008, 2009 and 2010, respectively. During the Track Record Period, our capital expenditures were used primarily to purchase equipment such as dredgers and ancillary equipment. We estimate that our capital expenditures in the year ending December 31, 2011 will be approximately RMB470 million, which are planned to be used primarily for the purchase of dredgers and dredging equipment. We plan to fund our capital expenditures for the year ending December 31, 2011 substantially with cash on hand, including the net proceeds from the Global Offering.

FINANCIAL INFORMATION

WORKING CAPITAL

The table below sets forth the details of our current assets and liabilities at the end of each reporting period:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Current Assets			
Trade and other receivables	65,707	230,249	280,440
Amount from a Director	29,216	82,121	—
Bank balances and cash	<u>973</u>	<u>1,764</u>	<u>12,520</u>
Total current assets	<u>95,896</u>	<u>314,134</u>	<u>292,960</u>
Current Liabilities			
Trade and other payables	44,536	130,009	127,678
Amount due to a Director	11,382	11,395	26,464
Tax payable	16,664	49,503	39,185
Secured bank borrowings	<u>7,500</u>	<u>27,500</u>	<u>40,000</u>
Total current liabilities	<u>80,081</u>	<u>218,407</u>	<u>233,327</u>
Net current assets	<u>15,815</u>	<u>95,727</u>	<u>59,633</u>

We had net current assets of RMB59.6 million as of December 31, 2010, as compared to our net current assets of RMB95.7 million as of December 31, 2009. The difference was primarily due to a decrease in amount due from a Director of RMB82.1 million, an increase in amount due to a Director of RMB15.1 million and an increase in secured bank borrowings of RMB12.5 million, partially offset by an increase in trade and other receivables of RMB50.2 million, an increase in bank balances and cash of RMB10.8 million and a decrease in tax payable of RMB10.3 million. The amount of RMB26.5 million due to a Director will be settled before the Listing.

Our net current assets increased from RMB15.8 million as of December 31, 2008 to RMB95.7 million as of December 31, 2009, primarily due to an increase in trade and other receivables of RMB164.5 million and an increase in amount from a Director of RMB52.9 million, partially offset by an increase in trade and other payables of RMB85.5 million and an increase of tax payable of RMB32.8 million.

As of April 30, 2011, we had net current assets of RM143.7 million. Our current assets of RMB462.2 million comprised of trade and other receivables of RMB447.0 million and bank balances and cash of RMB15.2 million, and our current liabilities of RMB318.5 million comprised of trade and other payables of RMB199.0 million, amount due to a Director of RMB13.5 million, tax payable of RMB66.0 million and bank borrowings of RMB40 million. There was an increase of RMB84.1 million from our net current assets of RMB59.6 million as of December 31, 2010. This increase was principally driven by increases in trade and other receivables and partly offset by increases in trade and other payables and tax payable.

Taking into account the net proceeds available to us from the Global Offering, cash and cash equivalents on hand and our operating cash flow, our Directors are of the opinion that we have sufficient working capital for our present requirements and for at least the next 12 months from the date

FINANCIAL INFORMATION

of this prospectus. Our future cash requirements will depend on many factors, including our operating income, costs to purchase or lease additional dredgers, market acceptance of our products and services or other changing business conditions and future developments, including any investments or acquisitions we may decide to pursue. We may require additional cash to repay existing debt obligations or to re-finance our existing debts or due to changing business conditions or other future developments. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from lending institutions. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our Shareholders' interests in our Company. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our Shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer. For additional details of the risks and uncertainties relating to our working capital, see "Risk Factors — Risks Relating to Our Industry and Our Business — We commit to pay significant costs before receiving payment from our customers and if we are unable to collect our accounts receivable or suffer impairment losses, our liquidity, financial condition and results of operation may be materially and adversely affected" and "Risk Factors — Risks Relating to Our Industry and Our Business — We require substantial amounts of capital for our operation and expansion".

ANALYSIS OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

Trade and Other Receivables Analysis

The following table sets forth our trade and other receivables at the end of each period indicated:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Trade receivables	60,681	215,703	216,084
Less: Allowance on trade receivables	—	—	—
	<u>60,681</u>	<u>215,703</u>	<u>216,084</u>
Bills receivable	—	—	42,000
Deposits, prepayments and other receivables			
Rental deposits for chartered dredgers with short term leases . . .	3,000	1,000	2,073
Rental receivables	1,400	500	300
Retention receivables	609	9,317	6,224
Deposits and prepayments.	17	2,524	12,431
Others	—	1,205	1,328
	<u>5,026</u>	<u>14,546</u>	<u>22,356</u>
Total	<u><u>65,707</u></u>	<u><u>230,249</u></u>	<u><u>280,440</u></u>

Certain of our contracts with our customers contain a retention clause pursuant to which our customers withhold a portion of the value of the work performed each month, for example 5%, for a retention period of typically about one year after the completion of our work under the relevant contract in order to cover any defects in the quality of our work. We recognize this portion of our revenue and

FINANCIAL INFORMATION

the corresponding retention receivables when we have completed substantial work under the relevant contract in the later stage of the relevant project. The following table sets forth the movement of our retention receivables during the Track Record Period.

	2008	2009	2010
	(in thousands of RMB)		
Opening balance as of January 1	—	609	9,317
Additional retention receivables.	609	8,708	1,797
Settlement of retention receivables.	—	—	(4,890)
Ending balance as of December 31	609	9,317	6,224

Our trade and other receivables represent receivables from our customers for the provision of our services, bills receivable and deposits, prepayments and other receivables. As of December 31, 2008, 2009 and 2010, our trade and other receivables amounted to RMB65.7 million, RMB230.2 million and RMB280.4 million, respectively. The year-on-year increases were primarily due to the increases in revenue from our dredging business each year. The RMB280.4 million of trade and other receivables for 2010 was also due to the revenue we recognized in this period and the bills receivable we recognized at the end of 2010 as a result of our receipt of bank acceptance bills from certain of our customers. Our total revenue amounted to RMB133.3 million, RMB346.5 million and RMB374.9 million in 2008, 2009 and 2010, respectively. Of our total revenue, revenue from our dredging business accounted for 73.3%, 83.1% and 96.8% of our total revenue in 2008, 2009 and 2010, respectively. Of the RMB216.1 million trade receivables outstanding as of December 31, 2010, RMB107.5 million had been received as of April 30, 2011.

Our bills receivable increased from nil as of December 31, 2009 to RMB42.0 million as of December 31, 2010 primarily due to our receipt of bank acceptance bills from certain of our customers. Our deposits and prepayments increased from RMB2.5 million as of December 31, 2009 to RMB12.4 million as of December 31, 2010. The increase in our deposits and prepayments was primarily due to an increase in prepayment for purchases of pipes of RMB7.0 million and deposits paid for spare parts of RMB0.6 million.

The following table sets forth our trade receivables turnover days for the Track Record Period:

	Year ended December 31,		
	2008	2009	2010
Trade receivables turnover days ⁽¹⁾	87	146	210

(1) Trade receivables turnover days are equal to the average balance of trade receivables at the beginning and the end of the relevant year divided by revenue for such year and multiplied by 365.

Our trade receivables turnover days increased from 87 days in 2008 to 146 days in 2009 and further to 210 days in 2010.

We recognize revenue from our dredging and dredging-related construction services when the services are rendered. In terms of payment, however, most of our contracts require our customers to make monthly progress payments with reference to the value of work completed at a certain percentage (typically 70% to 80%) of the value of work completed in the previous month, within thirty days after

FINANCIAL INFORMATION

we issue a monthly progress certificate to the customer specifying the value of work completed during the relevant month. According to these contracts, the remaining balance, which is typically 20% to 30% of the value of work completed or less under contracts that have retention clauses, is to be paid by our customers within thirty to sixty days after completion of the project audit work on completed projects, during which time the project owner checks the quality of the completed work. Therefore, until such tail period following the completion of the project and the project audit work concludes and we collect the remaining portion (for example, 20% to 30%, or less under contracts that have retention clauses) of the value of work we performed, this amount remains as trade receivables on our combined statement of financial position. This arrangement causes us to accumulate trade receivable balances for projects that have reached later stages but have not yet been completed.

The increase in our trade receivables turnover days was due in part to the expansion of our business in 2009, and particularly in the fourth quarter of 2009. As we recognized a greater amount of revenue near the end of 2009, our outstanding balance of trade receivables also increased. In addition, since our customers are typically not obligated to pay us the remaining portion (for example, 20%–30%, or less under contracts with retention clauses) of the value of the work we perform each month until 30 to 60 days after the close of the project audit work on completed projects, and because a large amount of our projects in 2009 had reached a mature stage but were not yet completed by year-end, this remaining balance was greater in 2009, and particularly at the end of 2009, than in 2008. In addition, late payments by our customers also contributed to our increased trade receivables turnover days in 2009.

In 2010 we had a stable balance of trade receivables at both the beginning and end of the year, in contrast to 2009 in which we had a relatively low balance at the beginning of the year and a relatively high balance at year-end. This caused our trade receivables turnover days to be higher in 2010 than in 2009. Our stable balance of trade receivables in 2010 was due in part to the continued expansion of our business. We entered into six new major contracts in 2010 that had duration terms which extended past year-end. Since our customers are typically not obligated to pay us the remaining portion (for example, 20% to 30%, or less under contracts with retention clauses) of the value of the work we perform each month until 30 to 60 days after the close of the project audit work on completed projects, this accumulated portion of the value of work we performed in 2010 contributed to our balance of trade receivables at the end of the year. In addition, late payments by our customers also contributed to our continued high balance of trade receivables at the end of 2010. As of April 30, 2011, RMB20.7 million of our trade receivables that were overdue as of December 31, 2010 had been settled.

FINANCIAL INFORMATION

The following table sets out the aged analysis of our trade receivables, net of allowance on trade receivables, as of December 31, 2008, 2009 and 2010, respectively:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
0–30 days	21,683	91,015	65,036
31–60 days	2,385	33,154	32,045
61–90 days	10,818	17,231	21,844
91–180 days	21,758	50,682	62,552
Over 180 days	<u>4,037</u>	<u>23,621</u>	<u>34,607</u>
	<u>60,681</u>	<u>215,703</u>	<u>216,084</u>

The following table sets out the aged analysis of our trade receivables, net of allowance on trade receivables, that were past due but not impaired as of December 31, 2008, 2009 and 2010, respectively:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
0–30 days	17,917	47,466	13,722
31–60 days	2,295	27,828	4,065
61–90 days	10,147	14,962	81
91–180 days	14,400	27,660	84
Over 180 days	<u>1,282</u>	<u>19,682</u>	<u>10,280</u>
	<u>46,041</u>	<u>137,598</u>	<u>28,232</u>

Our customers are typically state-owned enterprises and governmental entities, which we believe do not represent a credit risk. We believe that late payments from customers were partly due to late payments to certain of our customers by the relevant project owners, which are also generally state-owned enterprises and government entities. These late payments by project owners were due in part to the complicated internal approval procedures for government entities and state-owned enterprises, such as audits and approvals by the relevant government authorities. We do not expect the gradual tightening of liquidity in the PRC to increase the risk of non-recoverability of our accounts receivable from our customers. Most of our projects are national or regional infrastructure development projects, the owners of which are typically state-owned enterprises and government entities. We believe these entities have high historical credit ratings and would not generally be affected by a tightening of liquidity. We believe that our projects in the Caofeidian Industrial Area and Dalian Changxingdao Harbor have already begun to generate strong cash flow, and we therefore do not expect payment under the related contracts to rely on bank funding. Moreover, the reclamation dredging of certain other projects, such as those in Tianjin Port and Yancheng City, will increase land availability in these cities, and we expect that the premium to be obtained by the relevant government from the transfer of such land will be sufficient to make payments under our contracts. During the Track Record Period and up to the Latest Practicable Date, we did not have any disputes with our customers regarding their late payments.

FINANCIAL INFORMATION

We have undertaken measures aimed at reducing our trade receivables turnover days. Before accepting any new customer, we assess the potential customer's credit quality and define its credit limits based on the reputation of the customer within the industry. We regularly review our customers' payment history. We also review the aging of our trade receivables on a regular basis. In addition, our project managers closely monitor the status of payment by our customers.

We did not record any bad debt in the Track Record Period. Our accounts receivable increased from RMB215.7 million as of December 31, 2009 to RMB216.1 million as of December 31, 2010. We believe our credit control policy is appropriate.

We consider the amount that a trade debtor did not pay on schedule pursuant to its agreement with us to be past due. As of December 31, 2008, 2009 and 2010, the amounts past due of our trade receivables were RMB46.0 million, RMB137.6 million and RMB28.2 million, accounting for 75.1%, 61.1% and 12.7% of our total trade receivables and retention receivables, respectively. The amounts past due of our trade receivables were primarily due to increases in revenue in the relevant period and late payments by our customers. In addition, we believe that late payments to us were due to late payments to certain of our customers by the relevant project owners. As these customers are state-owned, we do not believe the extension of credit terms has significantly increased our credit risk with regard to these customers. We review the aging of trade receivables on a regular basis. As of the Latest Practicable Date, our management considers that no impairment loss needs to be recognized for our trade receivables which were past due during the Track Record Period in view of the financial background of these customers and their historical track record of payments.

Trade and Other Payables Analysis

Our trade and other payables primarily consist of trade payables to suppliers, other payables and accruals, receipts in advance, and payables for acquisition of property, plant and equipment. All of our trade and other payables are expected to be settled or recognized as income within one year or are payable on demand. Our suppliers generally granted us credit terms ranging from 30 to 90 days during the Track Record Period. With respect to transactions with our subcontractors, we are typically required to make monthly progress payments to our subcontractors at a rate of 70% to 80% of the value of work they completed in the previous month, within thirty days after a progress certificate for such month has been issued. The remaining balance, which is typically 20% to 30% of the value of work completed, is normally required to be paid by us within thirty to sixty days after the project is completed and accepted by us and after the project owner has completed its audit work.

Our trade and other payables decreased from RMB130.0 million as of December 31, 2009 to RMB127.7 million as of December 31, 2010, primarily due to a decrease in our use of subcontractors and settlement of trade payables. Our trade and other payables increased from RMB44.5 million as of December 31, 2008 to RMB130.0 million as of December 31, 2009, primarily due to increases in our operating cost as a result of growth in our revenue.

The following table sets forth our trade payables turnover days at the end of each reporting period:

	As of December 31,		
	2008	2009	2010
Trade payables turnover days ⁽¹⁾	102	124	194

FINANCIAL INFORMATION

- (1) Trade payables turnover days is calculated using the average balance of trade payables divided by operating cost for the relevant year and multiplied by 365 days.

Our trade payables turnover days in 2008 and 2009 remained relatively stable. Our trade payables turnover days increased from 2009 to 2010 primarily due to an increase in operating cost as a result of the continued expansion of our dredging services business.

The following table sets out the aged analysis of our trade payables as of December 31, 2008, 2009 and 2010, respectively:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
0–30 days	4,043	47,531	22,730
31–60 days	2,547	13,809	13,042
61–90 days	5,478	14,631	11,081
91–180 days	15,945	22,842	16,507
Over 180 days	<u>9,857</u>	<u>15,294</u>	<u>39,746</u>
Total	<u><u>37,870</u></u>	<u><u>114,107</u></u>	<u><u>103,106</u></u>

Depreciation of Plant and Equipment

We recognize depreciation of property, plant and equipment primarily with respect to our dredgers, plant and machinery and motor vehicles. Depreciation is charged so as to write off the cost of such assets over their estimated useful lives using the straight line method, after taking into account their estimated residual values (if any). The estimated useful lives of each of our dredgers, plant and machinery and motor vehicles were 15 to 20 years, 15 years and 5 to 10 years, respectively, during the Track Record Period. The following table sets forth the depreciation that we recognized with respect to our dredgers, plant and machinery and motor vehicles during the Track Record Period.

Depreciation	Dredgers	Plant and machinery	Motor vehicles
	(in thousands of RMB)		
At January 1, 2008	—	445	9
Provided for the year	<u>878</u>	<u>990</u>	<u>286</u>
At December 31, 2008	878	1,435	295
Provided for the year	<u>1,621</u>	<u>1,008</u>	<u>572</u>
At December 31, 2009	2,499	2,443	867
Provided for the year	<u>9,789</u>	<u>1,020</u>	<u>702</u>
At December 31, 2010	<u><u>12,288</u></u>	<u><u>3,463</u></u>	<u><u>1,569</u></u>

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. We also have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners' equity. Furthermore, we do not have any

FINANCIAL INFORMATION

retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

FINANCIAL RISKS

We are exposed to various types of market risks, including commodity price risks, credit risks, interest rate risks, foreign exchange risks and inflation risks in the normal course of business.

Commodity price risk

We are exposed to price fluctuations for materials, particularly fuel, which represented 25.7%, 12.1% and 29.8% of our operating cost in the years ended December 31, 2008, 2009 and 2010, respectively. Fluctuations in the prices of fuel and other materials have a significant effect on our results of operations. We do not engage in hedging activities designed or intended to hedge against fluctuations in the price of fuel or other materials. Moreover, we have not entered into any long-term contracts for fuel or other materials.

Credit risk

At the end of each reporting period, our maximum exposure to credit risk which would cause a financial loss to us due to failure by a counterparty to discharge an obligation arose from (i) the carrying amount of the respective recognized financial assets as stated in the combined statements of financial position; and (ii) the amount of contingent liability in relation to the financial guarantee issued by our Group.

In order to minimize our credit risk, our management has assigned a team to be responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade debt and amount due from a Director at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk on receivables is significantly reduced.

Our total trade and retention receivables due from our five largest customers accounted for 99.0%, 96.2% and 97.3% of total trade receivables as of December 31, 2008, 2009 and 2010, respectively, presenting a concentration credit risk to us.

The amount due from a Director as of December 31, 2008, 2009 and 2010 also presents a concentration credit risk to us. We assessed such credit risk by reviewing the historical and subsequent payments from the Director during the Track Record Period and consider the default risk on the amount due from a Director to not be significant.

We believe that our credit risk on liquid funds is limited because our counterparties are banks with high credit ratings assigned by international credit-rating agencies.

FINANCIAL INFORMATION

We believe our credit risk on the financial guarantee given to a third party is limited because our management regularly communicates with the third party on its financial performance and reconsiders the continuity of the given guarantee.

Interest rate risk

We are exposed to cash flow interest rate risk in relation to variable-rate bank borrowings balances. We currently do not have an interest rate hedging policy. However, our management monitors our interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Our cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from our bank borrowings. Our exposures to interest rates on financial liabilities are detailed in the following table.

	Weighted average effective interest rate	Carrying amount
		RMB (in thousands)
As at December 31, 2008		
<i>Non-derivative financial liabilities</i>		
Trade and other payables	—	37,870
Amount due to a Director		11,382
Secured bank borrowings — variable rate	7.99%	7,500
		56,752
As at December 31, 2009		
<i>Non-derivative financial liabilities</i>		
Trade and other payables	—	114,107
Amount due to a Director		11,395
Secured bank borrowings — variable rate	6.37%	27,500
		153,002
As at December 31, 2010		
<i>Non-derivative financial liabilities</i>		
Trade and other payables	—	103,106
Amount due to a Director		26,464
Secured bank borrowings — variable rate	5.09%	40,000
		169,570

Foreign exchange risk

All of our sales, our costs and expenses and borrowings are currently denominated in Renminbi. Therefore, we believe that we are not exposed to foreign exchange risk.

FINANCIAL INFORMATION

Inflation risk

In 2008 and 2009, the Customer Price Index in China was 5.9% and –0.7% respectively, according to the PRC National Bureau of Statistics. Our Directors are of the view that inflation has not had a material effect on our results of operations.

PROFIT FORECAST FOR THE SIX MONTHS ENDING JUNE 30, 2011

The Directors believe that, in the absence of unforeseen circumstances and on the basis of the assumptions as set out in “Appendix III — Profit Forecast” to this prospectus, our Company’s profit attributable to owners of our Company for the six months ending June 30, 2011 is unlikely to be less than RMB94 million. On the basis of the prospective financial information and the assumption that our Company had been listed since January 1, 2011 and a total of 800,000,000 Shares were issued and outstanding during the entire period, the pro forma forecast earnings per Share for the six months ending June 30, 2011 is unlikely to be less than RMB0.12.

The Directors expect our revenue in the six months ended June 30, 2011 to increase as compared to our revenue in the six months ended June 30, 2010 due to the expansion of our business and an increase in our number of projects in the first half of 2011. Notwithstanding the expected increase in our revenue, our gross profit margin in the six months ending June 30, 2011 is expected to decrease as compared with that in the six months ended June 30, 2010 as a result of (a) start-up costs related to our work on projects that newly started in late 2010 or early 2011; (b) the prudent output level we have forecasted to safely buffer for any uncertainties in these newly started projects; and (c) the higher operating costs we have budgeted for in the six months ending June 30, 2011.

We have declared to the Stock Exchange that the interim report of our Group for the six months ending June 30, 2011 will be audited pursuant to Rule 11.18 of the Listing Rules.

DIVIDEND POLICY

We may distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders’ approval. The Board will review our dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- our result of operations;
- our cash flows;
- our financial condition;
- our Shareholders’ interests;

FINANCIAL INFORMATION

- general business conditions and strategies;
- our capital requirements;
- the payment by our subsidiaries of cash dividends to us; and
- other factors the Board may deem relevant.

We are a holding company incorporated in the Cayman Islands and our ability to pay dividends depends substantially on the payment of dividends to us by our subsidiaries in China. In particular, our PRC subsidiaries may pay dividends only out of their accumulated distributable profits, if any, determined in accordance with its articles of association, and the accounting standards and regulations in China. Moreover, pursuant to relevant PRC laws and regulations applicable to our subsidiary in the PRC, our PRC subsidiary is required to set aside a certain amount of its accumulated after tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends. Furthermore, if any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to us.

Except as mentioned in the following paragraph, we currently intend to adopt, after our Listing, a general annual dividend policy of declaring and paying dividends on an annual basis of no more than 20% of our distributable net profit attributable to our Group for any particular financial year.

We launched a number of new projects in the year ended December 31, 2010, and we made capital expenditures of RMB347.5 million in this period. We estimate that our capital expenditures in the year ending December 31, 2011 will be approximately RMB470 million, which will be used primarily for the acquisition of dredgers and dredging equipment. For the above reasons, it is unlikely that we will recommend the declaration of any annual dividend at the coming annual general meeting of our Company for considering and approving our audited accounts for the financial year ended December 31, 2010.

DISTRIBUTABLE RESERVES

As of December 31, 2010, our Company had no reserves available for distribution to the shareholders.

Our Group's reserves as of December 31, 2010 consisted of PRC statutory reserves of RMB13.5 million, other reserves of RMB22,000, share premium of RMB173.5 million and retained profits of RMB209.7 million.

PROPERTY INTEREST AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interest as of April 30, 2011 and is of the opinion that the aggregate value of our property interests is HK\$7.0 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV to this prospectus.

FINANCIAL INFORMATION

Disclosure of the reconciliation of the property interests and the valuation of such property interests as required under Rule 5.07 of the Listing Rules is set out below:

	RMB (in thousands)
Net book value of property interests as at December 31, 2010 (audited)	3,952
Add: Addition for the months ended April 30, 2011	—
Less: Depreciation and amortization for the months ended April 30, 2011	(28)
Net book value as of April 30, 2011 (unaudited)	3,924
Add: Valuation surplus as of April 30, 2011	1,964
Valuation as of April 30, 2011 as per Appendix IV to this prospectus	5,888

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there had been no material adverse change in our financial or trading position or prospects since December 31, 2010 and there has been no event since December 31, 2010 that would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLAN

Please refer to the section headed “Business — Our strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

Assuming the Offer Price is HK\$3.63 per Offer Share (being the mid-point of the indicative Offer Price range), we estimate that the aggregate net proceeds to us from the Global Offering will be approximately HK\$645.0 million, after deducting the underwriting fees and other estimated expenses payable by us in connection with the Global Offering. We intend to use the net proceeds from the Global Offering as follows:

- (a) approximately 80%, or HK\$516.0 million, will be used for the purchase of dredgers and dredging equipment. We estimate that these purchases will require capital expenditures of approximately HK\$564 million. The ownership of these dredgers and equipment (including environmental protection dredging equipment) is expected to be equally split between Xiangyu PRC and the PRC Operational Entity.
- (b) approximately 7%, or HK\$45.1 million, will be used for the improvement of existing equipment and machinery of dredgers.
- (c) approximately 3%, or HK\$19.4 million, will be used to support the expansion of our business including the setting up of new project offices and computerization of management information systems.
- (d) approximately 10%, or HK\$64.5 million, will be used for working capital and other general corporate purposes.

The allocation of the proceeds described in (b) through (d) above will be adjusted on a pro-rata basis in the event that the Offer Price is fixed below or above the mid-point of the indicative price range. If the Offer Price is set at the lowest end of the price range (HK\$3.19), the net proceeds will be approximately HK\$561.1 million. If the Offer Price is set at the highest end of the price range (HK\$4.07), the net proceeds will be approximately HK\$729.2 million.

We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholder pursuant to the Over-allotment Option. We estimate that the Selling Shareholder will receive HK\$104.0 million net proceeds, assuming the Over-allotment Option is exercised in full, and assuming an Offer Price of HK\$3.63 per Share (being the mid-point of the indicative Offer Price range), after deducting the estimated expenses payable by the Selling Shareholder.

Our Group will control the costs and identify appropriate the target for the above plans, in particular, the expenditure referred to in paragraphs (a) and (b) above. In the event that the actual capital expenditure should exceed the respective net proceeds obtained from the Global Offering, our Group would then consider whether to utilize our own resources or to further raise funds.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes or if we are unable to implement any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorized financial institutions.

UNDERWRITING

HONG KONG UNDERWRITERS

Joint Lead Managers

CCB International Capital Limited

Guotai Junan Securities (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Morgan Stanley Asia Limited is the Sole Sponsor. Neither Morgan Stanley Asia Limited nor any of its Affiliates is an underwriter for this Global Offering and therefore does not and shall not have any obligation to underwrite any of the Hong Kong Offer Shares or the International Offer Shares under any circumstances.

(1) Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement entered into among us, the Controlling Shareholders, the Sole Global Coordinator and the Hong Kong Underwriters (among others), we are offering 20,000,000 Hong Kong Offer Shares (subject to adjustment) for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price.

Subject to (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and the Capitalization Issue, and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement being satisfied (or, as the case may be, waived), the Hong Kong Underwriters have severally agreed to apply or procure applications, on the terms and conditions of this prospectus and the related Application Forms, for the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for termination

The Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) may, upon joint determination and by giving notice to our Company, jointly terminate the Hong Kong Underwriting Agreement with immediate effect and the obligations of the Hong Kong Underwriters to subscribe or procure subscriptions for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement will terminate, if at any time prior to 8:00 a.m. on the Listing Date:

- (1) there has been a breach of any of the warranties under the Hong Kong Underwriting Agreement (“**Warranties**”) or there has been a breach by any of the Company, the Controlling Shareholders or the executive Directors of the Company (“the **Warrantors**”) of any of the provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

UNDERWRITING

- (2) any documents required to be delivered prior to 8:00 a.m. on the Listing Date under the Hong Kong Underwriting Agreement have not been delivered to the Sole Sponsor and the Sole Global Coordinator, or
- (3) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, result in a misstatement in, or constitute an omission from, any of the prospectus, the Web Proof Information Pack, the Application Forms, the formal notice and/or in any announcements issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- (4) any statement contained in any of this prospectus, the Web Proof Information Pack, the Application Forms, the formal notice and/or in any announcements issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any respect, or any estimate, forecast, expression of opinion, intention or expectation contained in any of the prospectus, the Application Forms and/or any announcements, issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair, honest and based on reasonable assumptions; or
- (5) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of any of the Warrantors pursuant to the indemnities referred to in the Underwriting Agreements; or
- (6) there shall have been any adverse change or development involving a reasonably likely material adverse change of any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (7) there shall have been any material adverse change or development involving a prospective material adverse change in the assets, liabilities, conditions, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, condition or position, financial or otherwise, or performance, of any member of our Group; or
- (8) our Company withdraws the prospectus (and/or any other documents used in connection with the subscription or sale of any of the Offer Shares pursuant to the Global Offering) or the Global Offering; or
- (9) there shall have been any non-compliance of the prospectus (or any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws or regulations; or
- (10) other than with the approval of the Sole Sponsor and the Sole Global Coordinator, there shall have occurred or arisen the issuance or requirement of our Company to issue a supplementary prospectus, Application Forms, preliminary or final offering circular pursuant to the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) or the

UNDERWRITING

Listing Rules in circumstances where the matter to be disclosed is, in the opinion of the Sole Sponsor and/or the Sole Global Coordinator adverse to the marketing for or the implementation of the Global Offering; or

- (11) there is an order or petition for the winding up or liquidation of any member of our Group with substantive business operations or any composition or arrangement made by any such member of our Group with its creditors or a scheme of arrangement entered into by any such member of our Group or any resolution for the winding up of any such member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any such member of our Group or anything analogous thereto occurring in respect of any such member of our Group; or
- (12) there is a valid demand by any creditor for repayment of our Company's indebtedness or those of any of its subsidiaries or our Company or any of its subsidiaries becomes liable to pay an indebtedness prior to its stated maturity; or
- (13) any action of any third party being threatened or instigated against any member of the Group which has or may have a material impact on our Group as a whole; or
- (14) any Director shall have been charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (15) any authority or political body or organisation shall have commenced any action, or announced an intention to take any action, against any Director or any member of our Group which has or may have a material impact on our Group as a whole; or
- (16) any prohibition on our Company or the Selling Shareholder for whatever reason from offering, allotting, issuing or selling any of the Offer Shares (including any of the Sale Shares to be sold upon the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering shall have arisen; or
- (17) the chairman or chief executive officer of our Company shall have vacated his office; or
- (18) there shall have occurred any contravention by any member of our Group of the Companies Ordinance, the Listing Rules or any applicable laws or regulations; or
- (19) there shall have developed, occurred, happened or come into effect any event or series of events, matters or circumstances concerning or relating to:
 - (i) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change in, local, national, regional, or international financial, political, economic, military, industrial, fiscal, regulatory, currency or market conditions or equity securities or stock or other financial market conditions or any monetary or trading settlement system (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the United States

UNDERWRITING

or re-valuation of the RMB against any foreign currencies) in Hong Kong, Cayman Islands, the British Virgin Islands, the United States, the PRC, the European Union, the United Kingdom or Japan or any other jurisdiction considered by the Sole Sponsor and the Sole Global Coordinator to be relevant (each a “**Relevant Jurisdiction**”); or

- (ii) any new law or any change or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in any Relevant Jurisdiction; or
- (iii) any event or series of events, in the nature of force majeure affecting any Relevant Jurisdiction including, without limiting the generality thereof, any acts of God, war, outbreak or escalation of hostilities (whether or not war is declared) or act of terrorism (whether or not responsibility has been claimed), or declaration of a national or international emergency or war, riot, public disorder, civil commotion, volcanic eruptions, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease or epidemics (including, without limitation, Severe Acute Respiratory Syndrome (SARS), H5N1, H1N1 or swine or avian influenza and such related/mutated forms) or accident or interruption or delay in transportation, calamity, crisis, strike or lock-out (whether or not covered by insurance); or
- (iv) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the NASDAQ Global Market, the London Stock Exchange or the Tokyo Stock Exchange or any suspension of trading of any of the securities of our Company on any exchange or over-the-counter market or any major disruption of any securities settlement or clearing services in any Relevant Jurisdiction or on commercial banking activities in any Relevant Jurisdiction, due to exceptional financial circumstances or otherwise; or
- (v) a change or development involving a prospective change in taxation, exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations (including without limitation a material devaluation of the Hong Kong dollar, the Euro, the Japanese yen, the Renminbi, the United States dollar or the British pound sterling against any foreign currencies and any disruptions in monetary, trading or securities settlement or clearance services, procedures or matters) in any Relevant Jurisdiction;

UNDERWRITING

which, individually or in the aggregate, in the opinion of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

- (i) is, will, or is likely to result in a material adverse change; or
- (ii) has, will have or is likely to have a material adverse impact on the success of the Hong Kong Public Offering or the Global Offering or the level of Offer Shares applied for, accepted, subscribed for or purchased, or on the distribution of the Offer Shares or dealings in the Shares in the secondary market; or
- (iii) makes it impracticable, inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the International Offering on the terms and in the manner contemplated in the offer documents; or
- (iv) has, will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Pursuant to the terms of the Hong Kong Underwriting Agreement, such agreement will be automatically terminated, the obligations of the Hong Kong Underwriters to subscribe or procure subscriptions for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement will terminate, and the Listing will not proceed, if all or any of the Pledges (excluding the personal guarantees provided by Mr. Liu and the pledges over the entire issued share capital of Wangji Limited pursuant to the Pre-IPO Notes or the Pre-IPO Warrants (where applicable)) have not been effectively discharged or released in accordance with the provision of the Hong Kong Underwriting Agreement prior to 8:00 a.m. on the Listing Date.

(2) International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we will enter into an International Underwriting Agreement with, among others, the Controlling Shareholders, the Sole Global Coordinator and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters to be named therein, subject to certain conditions, will agree severally to purchase, or procure purchasers for, the International Offer Shares being offered pursuant to the International Offering.

It is expected that the Selling Shareholder shall grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) from the Listing Date up to 30 days after the last day for lodging Application Forms under the Hong Kong Public Offering, to require the Selling Shareholder to sell up to an aggregate of 30,000,000 existing Shares, representing in aggregate 15.0% of the Offer Shares initially available under the Global Offering at the Offer Price, among other things, to cover over-allocations, if any, in the International Offering.

UNDERWRITING

(3) Undertakings in Respect of the Global Offering

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued by us or form the subject of any agreement to effectuate such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain circumstances as prescribed under Rule 10.08 of the Listing Rules.

Under the Hong Kong Underwriting Agreement, we have undertaken to each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters that we will not, except pursuant to the Global Offering, the exercise of the Over-allotment Option, the options granted or which may be granted pursuant the Share Option Scheme and the Pre-IPO Warrants, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

- (a) at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the date on which dealings in the Shares first commence on the Stock Exchange (the “**First Six-Month Period**”):
 - (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, hedge, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or contract or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares or any other securities of our Company or any member of our Group, or deposit Shares with a depository in connection with the issue of depository receipts); or
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or any other securities of our Company or any member of our Group, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares or any other securities of our Company or any member of our Group); or
 - (iii) enter into any transaction with the same economic effect as any transaction described in paragraphs (i) or (ii) above; or

UNDERWRITING

- (iv) offer to or agree to, or announce any intention to enter into, any transaction described in paragraphs (i), (ii) or (iii) above,

whether any such transaction described in paragraphs (i) or (ii) or (iii) above is to be settled by delivery of Shares or other securities or such other securities of such member of our Group, as applicable, or in cash or otherwise (whether or not the allotment or issue of Shares or such other securities of our Company or shares or such other securities of such subsidiary, as applicable, will be completed within the First Six-Month Period); and

- (b) enter into any of the foregoing transactions in paragraphs (a)(i), (ii) and (iii) above, or offer to or agree to or announce any intention to enter into any such transaction, such that any Controlling Shareholder would cease to be a controlling shareholder of our Company during the six-month period immediately following the First Six-Month Period (the “**Second Six-Month Period**”).

Undertakings by our Controlling Shareholders

In accordance with Rule 10.07(1)(a) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange that except pursuant to the Global Offering, Capitalization Issue, Over-allotment Option, Pre-IPO Warrants and Stock Borrowing Agreement:

- (i) he/it will not, at any time commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which he/it is shown by this prospectus to be the beneficial owner; and
- (ii) he/it will not, at any time during the period of six months from the date on which the period referred to in (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder of our Company.

Note (2) of Rule 10.07 of the Listing Rules provides that Rule 10.07 does not prevent a controlling shareholder from using the Shares beneficially owned by him/it as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

UNDERWRITING

Each of our Controlling Shareholders has further undertaken to the Stock Exchange that he/it will, within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date:

- (i) when he/it pledges or charges any Shares or other securities or interests in any securities of our Company beneficially owned by him/it in favor of any authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or securities of our Company so pledged or charged; and
- (ii) when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in any securities of our Company will be disposed of, immediately inform us of such indications.

Our Company has agreed and undertaken to the Stock Exchange that upon receiving such information in writing from any of our Controlling Shareholders we shall, as soon as practicable, notify the Stock Exchange and make appropriate disclosures in relation to such information by way of an announcement.

Under the Hong Kong Underwriting Agreement, the Controlling Shareholders have agreed and undertaken that, save for any stock lending arrangements agreed between the Selling Shareholder and the Stabilizing Manager pursuant to the Stock Borrowing Agreement, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

- (i) during the First Six-Month Period:
 - (a) it will not sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create any encumbrance over, or agree to transfer or dispose of or create any encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other securities of our Company) held by it as of the date of the Hong Kong Underwriting Agreement; or
 - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
 - (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or

UNDERWRITING

- (d) offer to or agree to, or announce any intention to enter into, any transaction described in (a) or (b) or (c) above,

whether any such transaction described in (a) or (b) or (c) above is to be settled by delivery of such capital or securities, in cash or otherwise (whether or not such transaction will be completed within the First Six-Month Period); and

- (ii) during the Second Six-Month Period, it will not enter into any of the foregoing transactions in paragraphs (i)(a) or (b) or (c) above or offer to or agree to or announce any intention to enter into any such transactions if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, any Controlling Shareholder will cease to be a controlling shareholder of our Company; and
- (iii) until the expiry of the Second Six-Month Period, in the event that it enters into any such transactions or offers to or agrees to, or announces an intention to enter into any such transactions, it will take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in the securities of our Company.

Each of our Controlling Shareholders has further undertaken to each of us, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that, within the period commencing from the date of the Hong Kong Underwriting Agreement up to and including the date falling 12 months from the Listing Date:

- (i) if and when he/it pledges or charges any securities or interests in the securities of our Company beneficially owned by him/it, he/it will immediately inform our Company, the Sole Sponsor, and the Sole Global Coordinator in writing of such pledge or charge together with the number of securities so pledged or charged; and
- (ii) if and when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be disposed of, he/it will immediately inform our Company, the Sole Sponsor, and the Sole Global Coordinator in writing of such indications.

Our Company agrees and undertakes to each of us, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that upon receiving such information in writing from any of our Controlling Shareholders, we shall, as soon as practicable, notify the Stock Exchange and make appropriate disclosures in relation to such information by way of an announcement.

Undertakings by the two Pre-IPO Investors

On the basis that the aforementioned lock-up undertakings have been given by Mr. Liu, Wangji and Mr. Dong (and his investment vehicles), each of the Pre-IPO Investors has agreed and undertaken to us, the Sole Sponsor, the Sole Global Coordinator and the Underwriters that it will not deal in, directly or indirectly, any Shares transferred to it pursuant to the relevant Pre-IPO Warrant Agreement, at any time during the period of six months from the Listing Date.

UNDERWRITING

(4) Underwriting Commission and Listing Expenses

The Sole Sponsor will receive a sponsorship fee. The Hong Kong Underwriters will receive an underwriting commission of 3.5% of the aggregate Offer Price payable for Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters.

Assuming the Over-allotment Option is not exercised, the aggregate commissions and expenses (including the sponsorship fee, but excluding any discretionary incentive fees), including the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering are currently estimated to be approximately HK\$95 million in aggregate (based on an Offer Price of HK\$3.63 per Share, being the mid-point of the stated price range of the Offer Price between HK\$3.19 and HK\$4.07 per Share, and the assumption that the Over-allotment Option is not exercised) and are payable by us.

We may also in our sole discretion pay the Sole Global Coordinator an additional incentive fee of 1% of the aggregate Offer Price of the Offer Shares from the Global Offering, including proceeds from the exercise of the Over-allotment Option, which shall be determined before the Price Determination Date.

It is expected that the commissions and expenses arising from or in connection with the transfer of the Sale Shares by the Selling Shareholder upon the exercise of the Over-allotment Option will be borne by the Selling Shareholder only, and not by our Company.

(5) Underwriters' Interests in our Company

Save for its obligations under the relevant underwriting agreement(s) or as otherwise disclosed in the prospectus, none of the Underwriters owns any shares or securities in our Company or any other member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares or securities in our Company or any member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

One of the Pre-IPO Investors, namely Hong Jun, is a wholly owned subsidiary of CCB International Asset Management Limited and an Affiliate of the Sole Global Coordinator.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. CCB International Capital Limited is the Sole Global Coordinator and Lead Bookrunner. Guotai Junan Securities (Hong Kong) Limited is the Co-bookrunner. CCB International Capital Limited and Guotai Junan Securities (Hong Kong) Limited are the Joint Lead Managers of the Global Offering. The Global Offering consists of:

- the Hong Kong Public Offering of initially 20,000,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below in the section headed “The Hong Kong Public Offering”; and
- the International Offering of initially 180,000,000 Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States in reliance on Regulation S.

Investors may apply for our Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of our Shares to institutional and professional investors and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors’ indications of interest in acquiring the International Offer Shares. Prospective investors will be required to specify the number of the International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to re-allocation as described below in the section headed “Pricing and Allocation” in this prospectus.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters, and in consultation with the Sole Sponsor) and us (for ourselves and on behalf of the Selling Shareholder) on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Monday, June 13, 2011 and in any event, no later than Wednesday, June 15, 2011.

The Offer Price will be not more than HK\$4.07 per Share and is expected not to be less than HK\$3.19 per Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus. If, for any reason, the Offer Price is not agreed by Wednesday, June 15, 2011 between the Sole Global Coordinator (for itself and on behalf of the Underwriters, and in consultation with the Sole Sponsor) and us (for ourselves and on behalf of the Selling Shareholder), the Global Offering will not proceed and will lapse.

STRUCTURE OF THE GLOBAL OFFERING

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator (on behalf of the Underwriters and with our consent) considers it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the Stock Exchange's website at www.hkexnews.hk and on our Company's website at www.xiangyu.com.hk notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed "Summary" in this prospectus and any other financial information which may change as a result of such reduction.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

The Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator. Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Offer Shares after the Listing. Such allocation may be made to professional, institutional and retail or corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The applicable Offer Price, the level of applications in the Hong Kong Public Offering, the level of the indication of interest in the International Offering, the results of applications and the basis of allotment under the Hong Kong Public Offering are expected to be announced on Friday, June 17, 2011 through a variety of channels as described in the section headed "How to Apply for Hong Kong Offer Shares — Publication of Results" in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of any application for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on, *inter alia*:

- the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and the Capitalization Issue and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Offer Shares on the Stock Exchange;
- our Company having submitted to the HKSCC all requisite documents to enable the Offer Shares to be admitted to trade on the Stock Exchange;
- the Offer Price having been fixed on the Price Determination Date;
- the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms or otherwise,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company (for itself and on behalf of the Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters, and in consultation with the Sole Sponsor) by Wednesday, June 15, 2011, the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause notice of the lapse of the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance, Chapter 155 of the Laws of Hong Kong, as amended.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be issued on Friday, June 17, 2011 but will only become valid certificates of title at 8.00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on Monday, June 20, 2011, provided that (i) the Global Offering has

STRUCTURE OF THE GLOBAL OFFERING

become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares prior to the receipt of share certificates or prior to the Share certificate bearing valid certificates of title do so entirely at their risk.

THE HONG KONG PUBLIC OFFERING

We are initially offering 20,000,000 Shares at the Offer Price, representing approximately 10% of the 200,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to the re-allocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Shares initially offered under the Hong Kong Public Offering will represent approximately 2.5% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

In Hong Kong, individual retail investors are expected to apply for Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions who seek International Offer Shares will not be allotted International Offer Shares.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Hong Kong Offer Shares.

The Offer Price will be not more than HK\$4.07 and is expected to be not less than HK\$3.19. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum offer price of HK\$4.07 per Share plus 1.0% brokerage fee, 0.003% SFC transaction levy, and 0.005% Stock Exchange trading fee. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$4.07, being the maximum price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

For allocation purposes only, the Hong Kong Offer Shares (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) will be divided equally into two pools: Pool A and Pool B, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total subscription amount (excluding brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with a total subscription amount (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Offer Shares in either

STRUCTURE OF THE GLOBAL OFFERING

pool A or pool B. When there is over-subscription, allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering, both in relation to pool A and pool B, will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The allocation of the Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares. Multiple or suspected multiple applications within pool A or pool B, and between the two pools and any application for more than 50% of the 20,000,000 Shares initially included in the Hong Kong Public Offering (that is 10,000,000 Hong Kong Offer Shares) are liable to be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not indicated an interest for or taken up any Offer Shares and will not indicate an interest for or take up any Offer Shares under the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will be increased to 60,000,000, 80,000,000 and 100,000,000 Hong Kong Offer Shares, respectively, representing approximately 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and such reallocation being referred to in this prospectus as "Mandatory Reallocation." In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate, and such additional Offer Shares will be reallocated to Pool A and Pool B in the Hong Kong Public Offering.

If the Hong Kong Offer Shares are not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate. In addition to any Mandatory Reallocation which may be required, the Sole Global Coordinator may, at its discretion, reallocate Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering, regardless of whether the Mandatory Reallocation is triggered.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

The number of Shares to be initially offered under the International Offering will be 180,000,000 Shares, representing approximately 90% of the Offer Shares under the Global Offering. The International Offering is subject to the Hong Kong Public Offering being unconditional. Subject to any

STRUCTURE OF THE GLOBAL OFFERING

reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Shares initially offered under the International Offering will represent 22.5% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Pursuant to the International Offering, the International Underwriters will conditionally place our Shares with institutional and professional investors and other investors in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. It is expected that the Selling Shareholder will grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator at its sole and absolute discretion on behalf of the International Underwriters from the Listing Date up to 30 days after the last date for lodging of applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, the Sole Global Coordinator will have the right to require the Selling Shareholder to sell up to an aggregate of 30,000,000 existing Shares, representing in aggregate 15.0% of the Offer Shares initially available under the Global Offering. These Shares will be issued at the Offer Price. An announcement will be made in the event that the Over-allotment Option is exercised.

OVER-ALLOTMENT AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the Underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Hong Kong Public Offering. Short sales involve the sale by the Stabilizing Manager of a greater number of Shares than the underwriters are required to purchase in the Global Offering. “Covered” short sales are short sales made in an amount not greater than the Over-allotment Option and “covered” short position is any short position, including any such position created as a result of any covered short sales or other sales, in an amount not greater than the Over-allotment Option.

The Stabilizing Manager may close out any covered short position by exercising the Over-allotment Option to purchase additional Shares, purchasing Shares in the open market or through stock borrowing arrangements or a combination of these means. In determining the source of the Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of the Shares in the open market as compared to the price at which they may purchase additional Shares pursuant to the Over-allotment Option.

Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Shares while the Global Offering is in progress. Any market purchases of our Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable

STRUCTURE OF THE GLOBAL OFFERING

laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which, if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days after the last date for lodging applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Sale Shares that may be sold by the Selling Shareholder pursuant to the Over-allotment Option, namely 30,000,000 Shares, which is 15.0% of the Offer Shares initially available under the Global Offering.

Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules under the SFO includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v). Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilizing Manager or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager or any person acting for it, will maintain such a position;
- liquidation of any such long position by the Stabilizing Manager which may also take place during the stabilization period, may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date, and is expected to expire on Wednesday, July 13, 2011, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

STRUCTURE OF THE GLOBAL OFFERING

Our Company will procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

In order to facilitate the settlement of over-allocations in connection with the International Offering, the Stabilizing Manager or any person acting for it may choose to borrow Shares from the Selling Shareholder, under the Stock Borrowing Agreement. The Stock Borrowing Agreement shall not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

- such stock borrowing arrangement with the Selling Shareholder will only be effected by the Stabilizing Manager for settlement of over-allocations in the International Offering and covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares borrowed from the Selling Shareholder under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be sold upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to the Selling Shareholder or his nominees on or before the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, listing rules and regulatory requirements; and
- no payment will be made to the Selling Shareholder by the Stabilizing Manager or its authorized agents in relation to such stock borrowing arrangement.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, June 20, 2011, it is expected that dealings in Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, June 20, 2011.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters, and in consultation with the Sole Sponsor) and us (for ourselves and on behalf of the Selling Shareholder) on the Price Determination Date and subject to the other conditions set out in the paragraph headed “Conditions of the Hong Kong Public Offering” above.

We expect shortly after determination of the Offer Price on the Price Determination Date, to enter into the International Underwriting Agreement relating to the International Offering.

Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed “Underwriting” in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

There are three channels to make an application for the Hong Kong Offer Shares. You may (i) use a **WHITE** or **YELLOW** Application Form; (ii) apply online through the designated website of the HK eIPO White Form Service Provider, referred to in this prospectus as the **HK eIPO White Form Service** (www.hkeipo.hk); or (iii) give **electronic application instruction** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **HK eIPO White Form** service or by giving **electronic application instructions** to HKSCC.

WHICH APPLICATION CHANNEL TO USE

You may apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying are an individual and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

Use a **WHITE** Application Form or **HK eIPO White Form Service** (www.hkeipo.hk) if you wish to have the Hong Kong Offer Shares issued in your own name in physical certificate(s).

If you wish to apply for the Hong Kong Offer Shares online through the **HK eIPO White Form Service** (www.hkeipo.hk) you must:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid email address and a contact telephone number.

Use a **YELLOW** Application Form if you wish to have the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Instead of using a **YELLOW** Application Form, you may give **electronic application instruction** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares in our Company, our Directors, chief executive officer or any of our subsidiaries or any of their respective associates (as defined in the Listing Rules) or a person who is not outside the United States and will not be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S) or persons who do not have a Hong Kong address.

WHERE TO COLLECT APPLICATION FORMS

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, June 8, 2011 until 12:00 noon on Monday, June 13, 2011 from:

- (1) any of the Hong Kong Underwriters located at the following addresses:

CCB International Capital Limited

34th Floor
Two Pacific Place
88 Queensway
Admiralty, Hong Kong

Guotai Junan Securities (Hong Kong) Limited

27th Floor
Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

- (2) any of the following branches of China Construction Bank (Asia) Corporation Limited:

<u>Area</u>	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Central Branch	6 Des Voeux Road Central, Central
	Causeway Bay Plaza Branch	G/F, Causeway Bay Plaza 1, Causeway Bay
	North Point Branch	382 King's Road, North Point
Kowloon	Mei Foo Branch	Shop N46, G/F, Mei Foo Sun Chuen, Stage 6
	Kowloon Bay Amoy Gardens Branch	Shop 181, G/F Phase IIA, Amoy Gardens
	Tai Kok Tsui Olympian City Branch	Shop 109, 1/F, Olympian City 2
New Territories . .	Tsuen Wan Branch	282 Sha Tsui Road, Tsuen Wan
	Shatin Plaza Branch	Shop 5, Level 1, Shatin Plaza, Shatin

HOW TO APPLY FOR HONG KONG OFFER SHARES

(3) any of the following branches of Standard Chartered Bank (Hong Kong) Limited

<u>Area</u>	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
Kowloon	Kwun Tong Hoi Yuen Road	G/F, Fook Cheong Building, No. 63 Hoi Yuen Road, Kwun Tong, Kowloon
	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
	Tsimshatsui Branch	G/F, 10 Granville Road, Tsimshatsui
New Territories . .	Tai Po Branch	23 & 25 Kwong Fuk Road, Tai Po Market, Tai Po
	Yuen Long Fung Nin Road Branch	Shop B at G/F and 1/F, Man Cheong Building, 247 Castle Peak Road, Yuen Long

The prospectus and **WHITE** Application Forms will be available for collection at the above mentioned locations during the following times:

Wednesday, June 8, 2011 — 9:00 a.m. to 5:00 p.m.
Thursday, June 9, 2011 — 9:00 a.m. to 5:00 p.m.
Friday, June 10, 2011 — 9:00 a.m. to 5:00 p.m.
Saturday, June 11, 2011 — 9:00 a.m. to 1:00 p.m.
Monday, June 13, 2011 — 9:00 a.m. to 12:00 noon

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, June 8, 2011 until 12:00 noon on Monday, June 13, 2011 from:

- the depository counter of the HKSCC located at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- your stockbroker, who may have such Application Forms and this prospectus available.

HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned to you by ordinary post together with the accompanying check or banker's cashier order (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on the Application Form.

If your application is made through a duly authorized attorney, we and the Sole Global Coordinator will have discretion to accept it, subject to any conditions we think fit, including evidence of authority of your attorney. We and the Sole Global Coordinator in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW TO APPLY FOR HONG KONG OFFER SHARES

MINIMUM SUBSCRIPTION AMOUNT AND PERMITTED NUMBERS

You may use the Application Forms to subscribe for a minimum of 1,000 Hong Kong Offer Shares or for one of the numbers set forth in the table on the Application Forms. You may give, if you are a CCASS Investor Participant, or cause your broker or custodian, who is a CCASS Clearing Participant or a CCASS Custodian Participant, to give **electronic application instructions** for a minimum of 1,000 Hong Kong Offer Shares. Such instructions in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set forth in the table in the Application Forms.

HOW MANY APPLICATIONS YOU MAY MAKE

You may make one application for the Hong Kong Offer Shares. You may, however, make more than one application for the Hong Kong Offer Shares only if you are a nominee, in which case you may give **electronic application instructions** to the HKSCC via CCASS (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number, or
- some other identification code,

for each beneficial owner (or in the case of joint beneficial owners, for each such beneficial owner).

If the above mentioned information is not provided, the application will be treated as being made for your benefit. In such case, multiple applications are not permitted. It will be a term and condition of all applications that, by completing and delivering an Application Form or by giving an **electronic application instruction**, you:

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to the HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through **HK eIPO White Form Service** (www.hkeipo.hk); and
- (if you are an agent for another person) warrant that you have made reasonable inquiries of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to the HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through **HK eIPO White Form Service** (www.hkeipo.hk), and that you are duly authorized to sign the Application Form or give **electronic application instructions** as that other person’s agent.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Except where you are a nominee and provide the required information in your applications, all of your applications under the Hong Kong Public Offering will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to the HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through **HK eIPO White Form Service** (www.hkeipo.hk);
- both apply (whether individually or jointly) on one (or more) **WHITE** Application Form and one (or more) **YELLOW** Application Form or apply on one (or more) **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to the HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through **HK eIPO White Form Service** (www.hkeipo.hk);
- apply (whether individually or jointly) on one (or more) **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to the HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form Service** (www.hkeipo.hk) for more than 50% of the Hong Kong Offer Shares being initially available in either Pool A or Pool B to the public under the Hong Kong Public Offering; or
- have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) any International Offer Shares under the International Offering.

If you apply by means of the **HK eIPO White Form Service**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the designated HK eIPO White Form Service Provider to make an application for the Hong Kong Offer Shares, an actual application will be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form Service** by giving **electronic application instructions** through the designated website at www.hkeipo.hk and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **HK eIPO White Form Service** and one or more applications by any other means, all of your applications are liable to be rejected.

All of your applications for the Hong Kong Offer Shares are liable to be rejected as multiple applications if more than one application is made for your benefit (including any application made by the HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities, and
- you exercise statutory control over that company, then the application will be deemed to be made for your benefit.

HOW TO APPLY FOR HONG KONG OFFER SHARES

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” in relation to a company means you:

- control the composition of the board of directors of that company;
- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

If you are suspected of having made multiple electronic applications or if more than one electronic application is made for your benefit, the number of Hong Kong Offer Shares applied for by the HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instruction** to make an application for the Hong Kong Offer Shares given by you or for your benefit to the HKSCC via CCASS shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

TIME FOR THE PUBLIC TO APPLY FOR THE HONG KONG OFFER SHARES

Your completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Monday, June 13, 2011, or, if the application lists are not open on that day due to bad weather, then by the time and date stated in the section headed “Effect of Bad Weather on the Opening of the Application Lists” below.

Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the receiving bankers listed above in “How to Apply for Hong Kong Offer Shares — Where to Collect Application Forms” at the following times:

Wednesday, June 8, 2011 — 9:00 a.m. to 5:00 p.m.
Thursday, June 9, 2011 — 9:00 a.m. to 5:00 p.m.
Friday, June 10, 2011 — 9:00 a.m. to 5:00 p.m.
Saturday, June 11, 2011 — 9:00 a.m. to 1:00 p.m.
Monday, June 13, 2011 — 9:00 a.m. to 12:00 noon

The application lists will be open between 11:45 a.m. and 12:00 noon on Monday, June 13, 2011, subject only to weather conditions.

No proceedings will be taken on applications for our Shares and no allotment of any such Shares will be made until the closing of the application lists.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not be open if there is:

- a tropical cyclone warning signal number 8 or above, or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- a “black” rainstorm warning signal,

in force in Hong Kong at anytime between 9:00 a.m. and 12:00 noon on Monday, June 13, 2011. Instead, they will be open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

In the event of the above-mentioned tropical cyclone or rainstorm on Monday, June 13, 2011, the latest time for lodging your Application Forms and for inputting your **electronic application instructions** will be postponed accordingly to the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day.

PUBLICATION OF RESULTS

We expect to publish the Offer Price, the level of indication of interest in the International Offering, the basis of allotment and the level of applications under the Hong Kong Public Offering in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), on our website at www.xiangyu.com.hk and the website of the Stock Exchange at www.hkexnews.hk on Friday, June 17, 2011.

The results of allocations under the Hong Kong Public Offering will be available at the times, dates and the methods specified below by publishing the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants and the number of the Hong Kong Offer Shares successfully applied for:

- results of allocations for the Hong Kong Public Offering will be available from our website at www.xiangyu.com.hk and the website of the Stock Exchange at www.hkexnews.hk from 8:00 a.m. on Friday, June 17, 2011, and our designated results of allocations website at www.tricor.com.hk/ipo/result on a 24-hour basis from 8:00 a.m. on Friday, June 17, 2011 to 12:00 midnight on Thursday, June 23, 2011. Users of this website will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation results;
- results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Friday, June 17, 2011 to Wednesday, June 22, 2011 (excluding Saturday, Sunday and public holiday in Hong Kong); and
- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours from Friday, June 17, 2011 to Tuesday, June 21, 2011 at the branches of the receiving bankers whose addresses are set out in the section entitled “— Where to Collect Application Forms” above.

HOW TO APPLY FOR HONG KONG OFFER SHARES

THE PRICE OF THE HONG KONG OFFER SHARES

You must pay the maximum indicative Offer Price of HK\$4.07 per Share, plus 1.0% brokerage fee, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy, in full when you apply for the Hong Kong Offer Shares. The Application Forms contain tables showing the exact amount payable for certain numbers of Hong Kong Offer Shares up to 10,000,000 Hong Kong Offer Shares. Applications must be in one of the numbers set out in the table. No application for any other number of Shares will be considered and any such application is liable to be rejected. You must pay the amount payable upon application for the Hong Kong Offer Shares by check or banker's cashier order in accordance with the terms contained in the Application Form.

If your application is successful, the brokerage fee will be paid to the participants of the Stock Exchange or the Stock Exchange (as the case may be); the Stock Exchange trading fee will be paid to the Stock Exchange; and the SFC transaction levy will be collected by the Stock Exchange on behalf of the SFC.

REFUND OF APPLICATION MONIES

If:

- the Offer Price, as finally determined, is less than HK\$4.07 per Share (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee) that you initially paid upon application;
- if your application is partially unsuccessful;
- if your application is wholly unsuccessful;
- the conditions of the Global Offering are not fulfilled in accordance with the section entitled "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus; or
- any application is revoked or any allocation pursuant thereto has become void,

we will, in each case, refund the difference per Share and/or your surplus application monies or your application monies, including the 1.0% brokerage fee, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy that you paid to the extent attributable to the surplus application monies. We will not pay interest on any refunded amount. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

Refund checks will be crossed "Account Payee Only" made out to you, or if you are joint applicants, to the first-named applicant on your application. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund check, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund check. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund check.

HOW TO APPLY FOR HONG KONG OFFER SHARES

DISPATCH/COLLECTION OF SHARE CERTIFICATES/e-AUTO REFUND PAYMENT

No temporary documents of title will be issued in respect of the Hong Kong Offer Shares. No receipt will be issued for sums paid on application. Subject to the provisions below relating to personal collection, share certificates and refund checks will be sent to you in due course by ordinary post, at your own risk, to the address specified on your Application Form:

- for applications on **WHITE** Application Forms or through the **HK eIPO White Form** service (www.hkeipo.hk): (i) share certificate(s) for the Hong Kong Offer Shares you have applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Hong Kong Offer Shares you have successfully applied for, if the application is partially successful, and/or
- for applications on **WHITE** or **YELLOW** Application Forms, a refund check or refund checks crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for: (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Share paid on application, in each case including the related 1.0% brokerage fee, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy, but without interest.

For wholly successful and partially successful applications on **YELLOW** Application Forms, share certificates that the applicants have successfully applied for will be deposited into CCASS as described in “How to Apply for Hong Kong Offer Shares — Personal collection for **YELLOW** Application Forms” below.

Subject to personal collection mentioned below, refund checks for surplus application monies (if any) in respect of wholly and partially unsuccessful applications under **WHITE** or **YELLOW** Application Forms or the difference between the Offer Price and the initial price per Share paid on application, in each case including 1.0% brokerage fee, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy, as well as share certificates for wholly and partially successful applications under **WHITE** Application Forms or through the **HK eIPO White Form** service (www.hkeipo.hk) are expected to be posted on Friday, June 17, 2011 or, for applicants by giving **electronic application instructions** to HKSCC, are expected to be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, June 17, 2011. No interest will be paid thereon. We reserve the right to retain any share certificates and any surplus application monies pending clearance of your check(s).

Our share certificates for the Hong Kong Offer Shares will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that:

- the Global Offering has become unconditional in all respects; and
- neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement has been terminated in accordance with its terms.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal collection for WHITE Application Forms. If you have (i) applied for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form, (ii) indicated your intention in your Application Form to collect your refund check(s) (if applicable) and/or share certificate(s) (if applicable) for the Hong Kong Offer Shares from our Hong Kong Share Registrar, Tricor Investor Services Limited, and (iii) provided all the information required in the Application Form, you may collect (if applicable) refund check(s) and (if applicable) share certificate(s) for the Hong Kong Offer Shares from our Hong Kong Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, June 17, 2011 or any other date as notified by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as of the date of collection/dispatch of share certificates/e-Auto Refund payment instructions/refund checks. If you are an individual and have elected for personal collection, you must not authorize any other person to make the collection on your behalf. If you are a corporate applicant and have elected for personal collection, your authorized representative, bearing a letter of authorization from your corporation stamped with your corporation's chop, must make collection. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar. If you do not collect your refund check(s) and share certificate(s) personally within the time specified for collection, they will be promptly sent by ordinary post to the address on your Application Form and at your own risk.

If you have applied for less than 1,000,000 Hong Kong Offer Shares or if you have applied for 1,000,000 Hong Kong Offer Shares or more, using a **WHITE** Application Form, but have not indicated in your Application Form that you wish to collect your share certificate(s) (if applicable) and/or refund check(s) (if applicable) in person, your share certificate(s) (if applicable) and/or refund check(s) (if applicable) will be sent to the address stated on your Application Form on Friday, June 17, 2011 by ordinary post and at your own risk.

Personal collection for YELLOW Application Forms. If you have (i) applied for 1,000,000 Hong Kong Offer Shares or more on a **YELLOW** Application Form, (ii) indicated your intention in your Application Form to collect your refund check(s) from our Hong Kong Share Registrar, and (iii) provided all information required in your Application Form, you may collect (if applicable) refund check(s) from our Hong Kong Share Registrar in the same way as applicants using **WHITE** Application Forms as described above.

If you have (i) applied for less than 1,000,000 Hong Kong Offer Shares on a **YELLOW** Application Form or (ii) applied for 1,000,000 Hong Kong Offer Shares or more but have not indicated in your application that you will collect your refund check(s) (if applicable) in person, it is expected that your refund check(s) (if applicable) will be sent to the address in your Application Form on Friday, June 17, 2011 by ordinary post and at your own risk.

If you have applied for the Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) for the Hong Kong Offer Shares you have successfully applied for will be issued in the name of the HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form, on Friday, June 17, 2011, or, under contingent situations, on any other date as will be determined by the HKSCC or the HKSCC Nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If You Have Applied Through a Designated CCASS Participant (Other Than a CCASS Investor Participant):

For the Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

If You Have Applied as a CCASS Investor Participant:

The results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering is expected to be made available in the manner described in the subsection above entitled "Publication of Results" on Friday, June 17, 2011. You should check the announcement published by us and report any discrepancies to the HKSCC before 5:00 p.m. on Friday, June 17, 2011 or any other date the HKSCC or the HKSCC Nominees chooses. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in the HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). The HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

Giving Electronic applications instructions to HKSCC:

If your electronic application is wholly or partially successful, your share certificate(s) will be issued in the name of the HKSCC Nominees and deposited directly into CCASS for the credit of your CCASS Investor Participant stock account or the stock account of the CCASS Participant that you have instructed to give the **electronic application instruction** on your behalf, on Friday, June 17, 2011 or, in the event of a contingency, on any other date as shall be determined by the HKSCC or the HKSCC Nominees.

The application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the beneficial owner, if supplied), your Hong Kong Identity Card/passport number or other identification code (Hong Kong business Registration number for corporations) and the basis of allotment of the Hong Kong Offer Shares is expected to be made available in the manner described in the subsection above entitled "Publication of Results" on Friday, June 17, 2011. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Friday, June 17, 2011 or any other date the HKSCC or the HKSCC Nominees chooses.

If you are instructing your broker or custodian to give **electronic application instructions** on your behalf, you can check the number of Hong Kong Offer Shares allotted to you and the amount of refund (if any) payable to you with that CCASS Participant.

If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System on Friday, June 17, 2011. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the

HOW TO APPLY FOR HONG KONG OFFER SHARES

refund monies to your bank account, the HKSCC will make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account and the amount of refund money credited to your designated bank account (if any).

If You Have Applied Through HK eIPO White Form Service:

If you have applied for 1,000,000 Hong Kong Offer Shares or more through the **HK eIPO White Form Service** by submitting an electronic application to the designated HK eIPO White Form Provider through the designated website at www.hkeipo.hk and your application is wholly or partially successful, you may collect your share certificate(s) in person from Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, June 17, 2011, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of share certificates/e-Auto Refund payment instructions/refund checks.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated HK eIPO White Form Service Provider promptly thereafter by ordinary post and at your own risk.

If you have applied for less than 1,000,000 Hong Kong Offer Shares or, if you have applied for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your application that you will collect your share certificates in person, your share certificate(s) will be sent to the address specified in your application instructions to the designated HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk on Friday, June 17, 2011 by ordinary post and at your own risk.

If you have applied through the **HK eIPO White Form Service** by paying the application monies through a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price being less than the Offer Price initially paid on your application, e-Auto Refund payment instructions (if any) will be despatched to your application payment bank account on Friday, June 17, 2011.

If you have applied through the **HK eIPO White Form service** by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful and/or the final Offer Price being less than the Offer Price initially paid on your application, refund check(s) will be sent to the address specified in your application instructions to the designated HK eIPO White Form Service Provider on Friday, June 17, 2011 by ordinary post and at your own risk.

Please also note the additional information relating to the refund of application monies overpaid, application money underpaid or applications rejected by the designated HK eIPO White Form Service Provider set out in “— How to Apply Using HK eIPO White Form — Additional Information for Applicants Applying Through HK eIPO White Form” below.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You will receive one share certificate for all Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

HOW TO APPLY USING HK eIPO WHITE FORM

If you are an individual and meet the criteria set out above in “Which Application Channel to Use”, you may apply through **HK eIPO White Form** by submitting an application through the designated website at www.hkeipo.hk. If you apply through **HK eIPO White Form**, the Hong Kong Offer Shares will be issued in your own name. Detailed instructions for application through the **HK eIPO White Form Service** are set out on the designated website at www.hkeipo.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated HK eIPO White Form Service Provider and may not be submitted to us.

If you give **electronic application instruction** through the designated website at www.hkeipo.hk, you will have authorized the designated HK eIPO White Form Service Provider to apply on the terms and conditions set out in this prospectus as supplemented and amended by the terms and conditions applicable to the **HK eIPO White Form Service**.

The designated HK eIPO White Form Service Provider may impose additional terms and conditions upon you for the use of the **HK eIPO White Form Service**. Such terms and conditions are set out on the designated website at www.hkeipo.hk. You will be required to read, understand and agree to such terms and conditions, in full, prior to making any application.

By submitting an application to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form Service**, you are deemed to have authorized the designated HK eIPO White Form Service Provider to transfer the details of your application to our Company and our Hong Kong Share Registrar.

You may submit an application through the **HK eIPO White Form Service** in respect of a minimum of a board lot of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than a board lot of 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.hkeipo.hk.

You should give **electronic application instructions** through **HK eIPO White Form** at the times set out under this section entitled “Time for Applying Through HK eIPO White Form Service” below.

You should make payment for your application made by **HK eIPO White Form Service** in accordance with the methods and instructions set out in the designated website at www.hkeipo.hk. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Monday, June 13, 2011, or at such later time as described under this section entitled “Effect of Bad Weather on the Opening of the Application Lists” above, the designated HK eIPO White Form Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.hkeipo.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Warning: The application for Hong Kong Offer Shares through the **HK eIPO White Form Service** is only a facility provided by the designated HK eIPO White Form Service Provider to public investors. Our Company, our Directors, the Sole Global Coordinator, the Lead Bookrunner, the Co-bookrunner, the Sole Sponsor, the Hong Kong Underwriters and the HK eIPO White Form Service Provider take no responsibility for such applications, and provide no assurance that applications through the **HK eIPO White Form Service** will be submitted to us or that you will be allotted any Hong Kong Offer Shares.

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **HK eIPO White Form Service**, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **HK eIPO White Form Service**, you should submit a **WHITE Application Form**. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE Application Form**. Please see “How Many Applications You May Make” for more details.

Time for Applying Through HK eIPO White Form Service

You may submit your application to the designated HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk from 9:00 a.m. on Wednesday, June 8, 2011 until 11:30 a.m. on Monday, June 13, 2011 or such later time as described under the paragraph entitled “Effect of Bad Weather on the Opening of the Application Lists” above (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, June 13, 2011, the last application day, or, if the application lists are not open on that day, then by the time and date stated in “— Effect of Bad Weather on the Opening of the Application Lists” above.

You will not be permitted to submit your application to the designated HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

Additional Information for Applicants Applying Through HK eIPO White Form

For the purposes of allocating the Hong Kong Offer Shares, each applicant giving **electronic application instructions** through the **HK eIPO White Form Service** to the HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated HK eIPO White Form Service Provider, the designated HK eIPO White Form Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated HK eIPO White Form Service Provider on the designated website at www.hkeipo.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds in accordance with their participant agreements with the HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (<https://ip.ccass.com>) in accordance with the procedures contained in HKSCC's "Operating Guide for Investor Participants" in effect from time to time.

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2nd Floor, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form. Our prospectus is available for collection at the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized the HKSCC and/or the HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to us and our Hong Kong Share Registrar.

Application for Hong Kong Offer Shares by the HKSCC Nominees on Your Behalf

When you give **electronic application instructions** to HKSCC to cause the HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf via CCASS, the HKSCC Nominees will sign and submit a **WHITE** Application Form on your behalf. In so doing,

- the HKSCC Nominees are only acting as a nominee for you and will not be, and you will be, however, liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- the HKSCC Nominees do all the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of the HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who made the **electronic application instruction** on your behalf;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- undertake and agree to accept the Hong Kong Offer Shares in respect of which you have given the **electronic application instruction** or any lesser number of such Hong Kong Offer Shares;
- undertake and confirm that you have not indicated an interest for, applied for or taken up any International Offer Shares under the International Offering nor otherwise participated in the International Offering;
- (if the **electronic application instruction** is given for your own benefit) declare that only one set of **electronic application instruction** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instruction** for the benefit of such other person and that you are duly authorized to give the instruction as such other person's agent;
- understand that the above declaration and representations will be relied upon by us, our Directors and the Sole Global Coordinator in deciding whether or not to make any allotment of the Hong Kong Offer Shares in respect of the **electronic application instruction** given by you and that you are subject to prosecution for making any false declaration;
- authorize us to place the name(s) of the HKSCC Nominees in our register of members as the holder(s) of the Hong Kong Offer Shares allotted in respect of your **electronic application instruction** and to send share certificate(s) and/or refund money in accordance with the arrangements separately agreed between us and the HKSCC;
- confirm that you have read the terms and conditions and application procedures described in this prospectus and agrees to be bound by them;
- confirm that you have only relied on the information and representations contained in this prospectus in giving your **electronic application instruction** or instructing your broker or custodian to give the **electronic application instruction** on your behalf and will not rely on any other information and representation;
- agree that we, the Sole Global Coordinator, the Underwriters and any of their respective directors, officers, employees, partners, agents, advisors or any other parties involved in the Hong Kong Public Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agree to disclose your personal data to us and our Hong Kong Share Registrar, the Lead Bookrunner, the Co-bookrunner, the Sole Global Coordinator, the Sole Sponsor, the Hong Kong Underwriters, receiving bankers, advisors and agents and any additional information which we or they may require about you;
- agree (without prejudice to any other rights which you may have) that once the application of the HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentations;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that any application made by the HKSCC Nominees on your behalf pursuant to **electronic application instructions** given by you is irrevocable the fifth day after the time of opening of the application list (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give such instruction. This collateral contract will be in consideration of our agreement not to offer any Hong Kong Offer Shares to any person before the fifth day after the time of opening of the application list (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures described in this prospectus. However, your application made by the HKSCC Nominees on your behalf may be revoked before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section to exclude or limit the responsibility of that person for this prospectus;
- agree that once the application of the HKSCC Nominees has been accepted, neither such application nor your **electronic application instruction** can be revoked, and that acceptance of such application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by us;
- agree to the arrangements, undertakings and warranties specified in the participant agreement between you and the HKSCC, read together with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Offer Shares;
- agree with our Company, for ourselves and for the benefit of each of our shareholders (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of its shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, Companies Ordinance, the Memorandum of Association and the Articles of Association;
- agree with our Company (for itself and for the benefit of each of its shareholders) that Shares in our Company are freely transferable by the holders thereof;
- authorize our Company to enter into a contract on your behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with their obligations to shareholders stipulated in the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Effect of Your electronic application instruction to the HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian, who is a CCASS Clearing Participant or a CCASS Custodian Participant, to give such instructions to the HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have taken the following actions listed below. Neither the HKSCC nor the HKSCC Nominees shall be liable to us or to any other person in connection with the following actions:

- you have instructed and authorized the HKSCC to cause the HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- you have instructed and authorized the HKSCC to arrange payment of the maximum indicative Offer Price, with brokerage fee, SFC transaction levy and Stock Exchange trading fee, by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum indicative offer price per Offer Share you initially paid on application, refund of the application money or the relevant portion of it, including the brokerage fee, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account; and
- you have instructed and authorized HKSCC to cause HKSCC Nominees to take on your behalf the actions it is stated to take on your behalf in the **WHITE** Application Form.

Time for Inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Wednesday, June 8, 2011 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, June 9, 2011 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, June 10, 2011 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, June 11, 2011 — 8:00 a.m. to 1:00 p.m.⁽¹⁾
Monday, June 13, 2011 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as the HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, June 8, 2011 until 12:00 noon on Monday, June 13, 2011 (24 hours daily, except the last application day).

Allocation of Hong Kong Offer Shares

For the purposes of allocating the Hong Kong Offer Shares, the HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit such instruction is given will be treated as an applicant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Section 40 of the Companies Ordinance

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance.

Personal Data

The section of the Application Form captioned “Personal Data” applies to any personal data held by us and our Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than the HKSCC Nominees.

Warning

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to the HKSCC is only a facility provided to CCASS Participants. We, our Director, the Sole Global Coordinator, the Sole Sponsor, the Lead Bookrunner, the Co-bookrunner, the Underwriters and any parties involved in the Global Offering take no responsibility for the application, including the procedures and processes of the application, and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to the HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised to allow ample time, and not to wait until the last minute, to input their **electronic application instructions** into the systems. In the event that CCASS Investor Participants have problems in connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) visit the HKSCC’s Customer Service Center to complete an input request form for **electronic application instruction** before 12:00 noon on Monday, June 13, 2011 or such later date as stated in the section headed “How to Apply for Hong Kong Offer Shares — Effect of Bad Weather on the Opening of the Application Lists” above.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Offer Shares are set out in notes attached to the Application Forms and, whether you are making your application by an Application Form or by **electronic application instruction** to the HKSCC to cause HKSCC Nominees to apply on your behalf or through the designated HK eIPO White Form Service Provider, you should read them carefully. In particular, you should note the following situations in which Hong Kong Offer Shares will not be allotted to you or your application is liable to be rejected.

You May Only Revoke Your Application under Limited Circumstances

By completing and submitting an Application Form or giving **electronic application instructions** to the HKSCC or to the designated HK eIPO White Form Service Provider, your application or the application made by the HKSCC Nominees on your behalf may not be revoked on or before the fifth

HOW TO APPLY FOR HONG KONG OFFER SHARES

day after the time of opening the application lists. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to the HKSCC or to the designated HK eIPO White Form Service Provider and an application has been made by the HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our agreement not to offer any Hong Kong Offer Shares to any person before the fifth day after the time of opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus.

Your application or the application made by the HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of opening the application lists if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under such section to exclude or limit the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedures provided, all applications that have been submitted will remain valid and may be accepted. Subject to the above, an application, once made, is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by the HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications that are not rejected will be constituted by notification in the press of the results of allotment, and where such basis of allotment is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

Your Application May Be Accepted or Rejected at Our Discretion or Our Agent's Discretion

We, the Sole Global Coordinator or the designated HK eIPO White Form Service Provider (where applicable), in their capacity as our agents, and our and their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of an application. No reasons have to be provided for any rejection or acceptance.

Your Application Will Be Rejected if You Do Not Comply with Certain Conditions

Your application will be rejected if:

- you have made multiple applications or are suspected of having made multiple applications, including having indicated an interest for, or being placed (including conditionally and/or provisionally), any Offer Shares under the International Offering;
- your Application Form is not completed in accordance with the instructions as stated on such form (if you apply by an Application Form);

HOW TO APPLY FOR HONG KONG OFFER SHARES

- your **electronic application instructions** through the **HK eIPO White Form Service** are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.hkeipo.hk;
- your payment is not made correctly;
- you pay by check or banker's cashier order and such check or banker's cashier order is dishonored on its first presentation;
- you or the person for whose benefit you apply for have applied for or taken up, or indicated an interest in, or have been or will be placed or allocated (including conditionally and/or provisionally) International Offer Shares. By filling in any of the Application Forms or applying by giving **electronic application instructions** to the HKSCC or to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form Service**, you agree not to apply for or indicate any interest for Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received International Offer Shares, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;
- if you apply for more than 50% of the Hong Kong Offer Shares initially being offered in the Hong Kong Public Offering (that is 10,000,000 Hong Kong Offer Shares);
- your application for Hong Kong Offer Shares is not in one of the numbers set out in the table in the Application Form; or
- we and the Sole Global Coordinator (on behalf of us) believe that the acceptance of your application would violate the applicable securities or other laws, rules or regulation of the jurisdiction in which your application is completed and/or signed or your address appeared in the Application Form is located.

Your Application Will Not Be Accepted under Certain Circumstances

Your application or the HKSCC Nominee's application made on your behalf will not be accepted if any of the following occur:

- any of the Underwriting Agreement does not become unconditional; or
- any Underwriting Agreement is terminated in accordance with its terms.

Your Allotment of Hong Kong Offer Shares Will Be Void under Certain Circumstances

Your allotment of Hong Kong Offer Shares or the allotment of Hong Kong Offer Shares to the HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list our Shares either:

- within three weeks from the closing of the applications lists; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- within a longer period of up to six weeks if the Listing Committee notifies us of such longer period within three weeks of the closing of the application lists in respect of the Hong Kong Public Offering.

DEALINGS AND SETTLEMENT

Commencement of Dealings in Our Shares on the Stock Exchange

Dealings in our Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Monday, June 20, 2011. Our Shares will be traded on the Stock Exchange in board lots of 1,000 Shares. The stock code of our Shares is 871.

Our Shares Will Be Eligible for Admission into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of the HKSCC, our Shares will be accepted as eligible securities by the HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date the HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS.

YOU SHOULD SEEK ADVICE OF YOUR STOCKBROKER OR OTHER PROFESSIONAL ADVISOR FOR DETAILS OF THE SETTLEMENT ARRANGEMENTS AS SUCH ARRANGEMENTS WILL AFFECT YOUR RIGHTS AND INTERESTS.



June 8, 2011

The Directors
Xiangyu Dredging Holdings Limited
Morgan Stanley Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to Xiangyu Dredging Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”), for each of the three years ended December 31, 2010 (the “**Track Record Period**”) (the “**Financial Information**”) for inclusion in the prospectus of the Company dated June 8, 2011 (the “**Prospectus**”) in connection with the proposed listing of the Company’s shares on the Main Board of the Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on May 31, 2010. The name of the Company was changed from Power Wealth International Holdings Ltd. to Power Wealth International Holdings Limited on June 21, 2010 following a resolution passed by the Company’s shareholders on June 18, 2010. Its name was further changed from Power Wealth International Holdings Limited to Xiangyu Port Construction Limited on November 3, 2010 following a resolution passed by the Company’s shareholders on October 28, 2010. Pursuant to a resolution passed on January 28, 2011, the name of the Company was changed to Xiangyu Dredging Holdings Limited on February 8, 2011. Pursuant to a group reorganization, as more fully explained in the paragraph headed “Corporate Development” in the section headed “History, Reorganization and Corporate Structure” in the Prospectus (the “**Reorganization**”), the Company became the holding company of the companies now comprising the Group on April 19, 2011 which are principally engaged in the provision of dredging services in The People’s Republic of China (“**PRC**”).

As at the date of this report, the Company, either through legal ownership or implementation of the contractual arrangements which are explained in the section headed “Contractual Arrangements” in the Prospectus, has equity interests in the following subsidiaries:

<u>Name of subsidiary</u>	<u>Country and date of incorporation/ establishment</u>	<u>Issued and fully paid share capital/ registered capital</u>	<u>Attributable equity interest held by the Company</u>	<u>Principal activities</u>	<u>Form of company</u>
<i>Directly owned</i>					
Power Wealth Group (BVI) Limited (“ Power Wealth BVI ”)	British Virgin Islands (“ BVI ”) May 17, 2010	US\$20,000	100%	Investment holding	Limited liability

<u>Name of subsidiary</u>	<u>Country and date of incorporation/ establishment</u>	<u>Issued and fully paid share capital/ registered capital</u>	<u>Attributable equity interest held by the Company</u>	<u>Principal activities</u>	<u>Form of company</u>
<i>Indirectly owned</i>					
Power Wealth Engineering Limited 力富工程有限公司 ("Power Wealth HK")	Hong Kong July 3, 2002	HK\$100,000	100%	Investment holding and provision of dredging consultation services	Limited liability
Jiangsu Xiangyu Port Constructing Project Administration Co., Ltd* 江蘇翔宇港建工程管理 有限公司 ("Xiangyu PRC")	PRC June 11, 2010	US\$15,000,000	100%	Provision of dredging services in PRC	Foreign wholly owned enterprise
Jiangsu Xingyu Port Construction Company Limited* 江蘇興宇港建有限公司 ("PRC Operational Entity")	PRC July 13, 2007	RMB39,315,800	100%	Provision of dredging services in PRC	A limited company

All companies now comprising the Group have adopted December 31 as their financial year end date.

No audited financial statements have been prepared for the Company as it was only incorporated on May 31, 2010 and has not carried on any business, other than those transactions relating to the Reorganization.

Power Wealth BVI has not prepared any audited financial statements as there is no statutory audit requirement in its place of incorporation.

The statutory financial statements of Power Wealth HK for each of the two years ended December 31, 2009 prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") were audited by Poon & Tong C.P.A. Limited, certified public accountants registered in Hong Kong. The statutory financial statements of Power Wealth HK for the year ended December 31, 2010 were audited by us.

The statutory financial statements of Xiangyu PRC for the period from the date of its establishment to December 31, 2010 which were prepared in accordance with PRC accounting rule and regulations, were audited by Yancheng Zhongzheng Certified Public Accountants Co., Ltd.* (鹽城眾正會計師事務所), certified public accountants registered in the PRC. For the purpose of this report, Xiangyu PRC has also prepared financial statements in accordance with HKFRSs for the period from the date of establishment to December 31, 2010 ("Xiangyu PRC Financial Statements"). We have performed an independent audit of the Xiangyu PRC Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

* English translated name is for identification only.

The statutory financial statements of the PRC Operational Entity for each of the three years ended December 31, 2010 were prepared in accordance with PRC accounting rules and regulations (“**PRC GAAP**”) and were audited by Yancheng Zhongzheng Certified Public Accountants Co., Ltd.* (鹽城眾正會計師事務所), certified public accountants registered in the PRC. For the purpose of this report, the PRC Operational Entity has also prepared financial statements in accordance with HKFRSs for each of the three years ended December 31, 2010 (the “**PRC Operational Entity Financial Statements**”). We have performed an independent audit of the PRC Operational Entity Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

For the purpose of this report, we have examined the PRC Operational Entity Financial Statements, Xiangyu PRC Financial Statements and other audited financial statements or management accounts, as applicable, of the companies now comprising the Group for the Track Record Period (collectively the “**Underlying Financial Statements**”) in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 of Section A below, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the relevant companies who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at December 31, 2008, 2009 and 2010 and of the Company as at December 31, 2010 and of the combined results and combined cash flows of the Group for the Track Record Period.

A. FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

	Notes	Year ended December 31,		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Revenue	5	133,349	346,549	374,883
Operating cost		(71,987)	(222,937)	(204,823)
Gross profit		61,362	123,612	170,060
Other income	6	4,292	4,803	26
Marketing and promotion expenses		(820)	(1,779)	(2,979)
Administrative expenses		(2,093)	(3,348)	(6,267)
Listing expenses		—	—	(21,531)
Finance costs	7	(816)	(1,317)	(3,640)
Profit before tax		61,925	121,971	135,669
Income tax expense	8	(16,261)	(33,130)	(40,639)
Profit and total comprehensive income for the year . .		45,664	88,841	95,030
Earnings per share	11			
Basic (RMB)		<u>0.57</u>	<u>0.80</u>	<u>0.38</u>

Combined Statements of Financial Position

	Notes	As at December 31,		
		2008 RMB'000	2009 RMB'000	2010 RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	13	43,272	40,407	376,300
Deposit paid for acquisition of property, plant and equipment		18,700	28,494	273
Rental deposits	14(a)	<u>1,000</u>	<u>3,000</u>	<u>—</u>
		<u>62,972</u>	<u>71,901</u>	<u>376,573</u>
CURRENT ASSETS				
Trade and other receivables	14(b)	65,707	230,249	280,440
Amount due from a director	15	29,216	82,121	—
Bank balances and cash	16	<u>973</u>	<u>1,764</u>	<u>12,520</u>
		<u>95,896</u>	<u>314,134</u>	<u>292,960</u>
CURRENT LIABILITIES				
Trade and other payables	17	44,535	130,009	127,678
Amount due to a director	15	11,382	11,395	26,464
Tax payable		16,664	49,503	39,185
Secured bank borrowings	18	<u>7,500</u>	<u>27,500</u>	<u>40,000</u>
		<u>80,081</u>	<u>218,407</u>	<u>233,327</u>
NET CURRENT ASSETS		<u>15,815</u>	<u>95,727</u>	<u>59,633</u>
NET ASSETS		<u>78,787</u>	<u>167,628</u>	<u>436,206</u>
CAPITAL AND RESERVES				
Paid-in-capital/share capital	19	39,406	39,406	39,451
Reserves		<u>39,381</u>	<u>128,222</u>	<u>396,755</u>
TOTAL EQUITY		<u>78,787</u>	<u>167,628</u>	<u>436,206</u>

Combined Statements of Changes In Equity

	Attributable to owners of the Company					Total RMB'000
	Paid-in capital/ share capital	Share premium	PRC statutory reserve	Other reserve	(Accumulated loss) Retained profits	
	RMB'000	RMB'000	RMB'000 (note i)	RMB'000 (note ii)	RMB'000	
At January 1, 2008	12,090	—	93	—	(6,376)	5,807
Profit for the year and total comprehensive income for the year	—	—	—	—	45,664	45,664
Transfer	—	—	4,569	—	(4,569)	—
Capital injection to the PRC Operational Entity by Mr. Liu . . .	27,316	—	—	—	—	27,316
At December 31, 2008	39,406	—	4,662	—	34,719	78,787
Profit for the year and total comprehensive income for the year	—	—	—	—	88,841	88,841
Transfer	—	—	8,887	—	(8,887)	—
At December 31, 2009	39,406	—	13,549	—	114,673	167,628
Profit for the year and total comprehensive income for the year	—	—	—	—	95,030	95,030
Effect of Share Exchange (note 19) . .	(22)	—	—	22	—	—
Issue of shares by Power Wealth BVI.	67	173,481	—	—	—	173,548
At December 31, 2010	39,451	173,481	13,549	22	209,703	436,206

notes:

- (i) According to the relevant requirements in the memorandum of association of the PRC Operational Entity, a portion of its profits after taxation is to be transferred to the PRC statutory reserve. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The reserve can be applied either to set off accumulated losses or to increase capital.
- (ii) The other reserve of the Group represents the difference between (i) the nominal value of the 9,999 new shares of US\$1.00 each issued by Power Wealth BVI to Mr. Liu in exchange of the shareholding in Power Wealth HK and (ii) the nominal value of share capital of Power Wealth HK.

Combined Statements of Cash Flows

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
OPERATING ACTIVITIES			
Profit before income tax	61,925	121,971	135,669
Adjustments for:			
Depreciation of property, plant and equipment	2,251	3,300	11,618
Finance costs	816	1,317	3,640
Bank interest income	(10)	(11)	(26)
Operating cash flows before movements in working capital	64,982	126,577	150,901
(Increase) decrease in rental deposits	(1,000)	(2,000)	3,000
(Increase) decrease in trade and other receivables	(57,474)	(164,542)	(50,191)
Increase in trade and other payables	37,996	85,474	1,077
Cash generated from operations	44,504	45,509	104,787
PRC income tax paid	(92)	(291)	(29,124)
NET CASH FROM OPERATING ACTIVITIES	<u>44,412</u>	<u>45,218</u>	<u>75,663</u>
INVESTING ACTIVITIES			
Interest received	10	11	26
Purchase of property, plant and equipment	(6,285)	(435)	(1,511)
Deposit paid for acquisition of property, plant and equipment	(18,700)	(9,794)	(273)
Advance to a director	(138,293)	(234,128)	(167,995)
Repayment from a director	116,176	181,223	78,307
NET CASH USED IN INVESTING ACTIVITIES	<u>(47,092)</u>	<u>(63,123)</u>	<u>(91,446)</u>
FINANCING ACTIVITIES			
New bank borrowings raised	7,500	27,500	40,000
Repayment of secured bank borrowings	(7,500)	(7,500)	(27,500)
Capital injection	3,000	—	—
Issue of shares by Power Wealth BVI	—	—	173,548
Advance from a director	4,919	59	65,237
Repayment to a director	(5,115)	(46)	(221,106)
Interest paid	(816)	(1,317)	(3,640)
NET CASH FROM FINANCING ACTIVITIES	<u>1,988</u>	<u>18,696</u>	<u>26,539</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(692)	791	10,756
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>1,665</u>	<u>973</u>	<u>1,764</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	<u>973</u>	<u>1,764</u>	<u>12,520</u>

Notes to the Financial Information

1. REORGANIZATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (2007 Revision) Chapter 22 of the Cayman Islands on May 31, 2010. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company is an investment holding company. The principal activities of the Group are provision of dredging services in the PRC. Prior to the Reorganization and on August 18, 2010, the entire issued share capital of the Company, being 1,000,000 nil paid ordinary shares of HK\$0.1 each held by Mr. Liu Kaijin (“**Mr. Liu**”), was transferred by Mr. Liu to Wangji Limited, a company wholly owned by Mr. Liu. As a result, the ultimate controlling shareholder of the Company is Mr. Liu.

As part of the Reorganization, the PRC Operational Entity, Xiangyu PRC and their respective equity participants, being Mr. Liu and Ms. Zhou entered into a series of agreements (the “**Contractual Arrangements**”) on April 19, 2011 with the following key provisions:

(i) Option Agreement

Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou entered into an exclusive option agreement (“**Option Agreement**”) whereby Mr. Liu and Ms. Zhou have irrevocably granted Xiangyu PRC an option to acquire, directly or through one or more nominees, the entire equity interest held by Mr. Liu and Ms. Zhou in the PRC Operational Entity at a price (“**Acquisition Cost**”) equivalent to the fair market value of such equity interest or, where applicable, the amount as permitted by the applicable PRC laws. The Acquisition Cost, when received, will be contributed by Mr. Liu and Ms. Zhou to the Xiangyu PRC as capital surplus. Subject to the compliance with the PRC laws, Xiangyu PRC may exercise the option at any time, in respect of all or part of the equity interest and in any manner at its sole discretion.

Pursuant to the Option Agreement, each of the PRC Operational Entity, Mr. Liu and/or Ms. Zhou has given undertakings that it shall perform certain acts or refrain from performing certain other acts unless with the prior written consent of Xiangyu PRC, including but not limited to the below matters:

- (a) that the PRC Operational Entity shall not alter its constitutional documents or its registered capital;
- (b) that any of the PRC Operational Entity, Mr. Liu and/or Ms. Zhou shall not incur any indebtedness (other than those incurred in the ordinary course of business and disclosed to and approved by Xiangyu PRC);
- (c) that the PRC Operational Entity shall not provide any loan or guarantee to any third parties;
- (d) that the PRC Operational Entity shall not dispose of or create encumbrances over any part of its assets, business or revenue and that Mr. Liu and Ms. Zhou shall not dispose of or create encumbrances over the equity interest held by them in the PRC Operational Entity, except the security created under the Equity Pledge Agreement (as defined in (iv) below);
- (e) that the PRC Operational Entity shall not enter into any material contracts over certain amount other than those in its ordinary course of business;
- (f) that the PRC Operational Entity shall not distribute any dividend (including any undistributed attributable profit payable to the entity shareholders prior to the Option Agreement becoming effective) to its shareholders and that Mr. Liu and Ms. Zhou undertake that such undistributed profit shall be retained in the PRC Operational Entity as its capital and/or reserved fund and shall give up and assign or transfer to Xiangyu PRC any dividend declared and distributed thereafter and payable to them by virtue of their holding of the equity interest in the PRC Operational Entity;
- (g) that the PRC Operational Entity shall not make investment or engage in any merger or acquisition transactions; and

- (h) that at the request of Xiangyu PRC, Mr. Liu and Ms. Zhou shall appoint such persons nominated by Xiangyu PRC to act as the directors, supervisors and senior management members of the PRC Operational Entity.

The Option Agreement became effective on April 19, 2011 and will expire on the date on which all the equity interests held by Mr. Liu and Ms. Zhou in the PRC Operational Entity are transferred to Xiangyu PRC and/or its nominee(s).

(ii) Proxy Agreement

Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou entered into a proxy agreement (“**Proxy Agreement**”) pursuant to which Mr. Liu and Ms. Zhou have unconditionally and irrevocably undertaken to authorize such person(s) as designated by Xiangyu PRC (being PRC citizens) to exercise the shareholders’ rights in relation to appointment of proxy and exercise of voting rights in the PRC Operational Entity under the articles and association of the PRC Operational Entity and the applicable PRC laws. Such shareholders’ rights include but not limited to (i) calling and attending the shareholders’ meetings of the PRC Operational Entity; (ii) exercising the voting rights on all matters requiring the consideration and approval of shareholders and those pursuant to articles of association of the PRC Operational Entity.

Before Xiangyu PRC acquires the entire equity interests in the PRC Operational Entity contemplated under the Option Agreement, Xiangyu PRC can exercise the voting rights of shareholders as if Xiangyu PRC and hence the Group were the ultimate beneficial owner of the PRC Operational Entity by virtue of the Proxy Agreement.

The term of the Proxy Agreement commenced on April 19, 2011 and will expire on April 18, 2026, and will be renewable at the election of Xiangyu PRC for successive terms of 10 years each until termination by Xiangyu PRC with a 30-day prior notice to the PRC Operational Entity.

(iii) Composite Services Agreement

Xiangyu PRC and the PRC Operational Entity entered into an exclusive composite services agreement (“**Composite Services Agreement**”) pursuant to which the PRC Operational Entity will engage Xiangyu PRC on an exclusive basis to provide consultation and other ancillary services in enterprise management and consultancy services, dredging project management and consultancy services.

In consideration of the provision of the aforementioned services by Xiangyu PRC, the PRC Operational Entity agrees to pay to Xiangyu PRC fees on an annual basis in arrears. Fees payable to Xiangyu PRC by the PRC Operational Entity will be equivalent to the total audited revenue less all the related costs, expenses, taxes and statutory reserve of the PRC Operational Entity.

The directors of the Company consider such arrangements will ensure the economic benefits generated from the operations of the PRC Operational Entity will flow to Xiangyu PRC and hence, the Group as a whole.

Pursuant to the Composite Services Agreement, the PRC Operational Entity shall not without the prior written consent of Xiangyu PRC to dispose of or pledge its material assets, operation rights and/or business; alter its registered capital; alter its scope of business; declare dividends; and/or remove any of its director and senior management members. Pursuant to the Composite Services Agreement, Xiangyu PRC is required to pay to the PRC Operational Entity a surety amount of approximately HK\$22,276,000 for the performance of its services provided to the PRC Operational Entity under the Composite Services Agreement. As a security for the due payment of the consultation service fees and repayment of the surety money by the PRC Operational Entity to Xiangyu PRC under the Composite Services Agreement, the PRC Operational Entity has agreed to pledge its interest in the three vessels owned or (as the case may be) jointly-owned by it to Xiangyu PRC.

The term of the Composite Services Agreement commenced from April 19, 2011, and will expire on April 18, 2026, which will be renewable at the request of Xiangyu PRC for successive terms of 10 years each until termination by Xiangyu PRC with a 30 day prior written notice to the PRC Operational Entity.

(iv) Equity Pledge Agreement

Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou entered into an equity pledge agreement (“**Equity Pledge Agreement**”), pursuant to which Mr. Liu and Ms. Zhou granted a continuing first priority security interests over their respective equity interests in the PRC Operational Entity to Xiangyu PRC for guaranteeing the performance of the Composite Services Agreement, the Option Agreement and the Proxy Agreement.

Pursuant to the Equity Pledge Agreement, without the prior written consent of Xiangyu PRC, the PRC Operational Entity shall not alter its current shareholding structure and/or its nature or scope of business, Mr. Liu and Ms. Zhou shall not allow the PRC Operational Entity to transfer or dispose of its assets or pledge or transfer their respective equity interests in the PRC Operational Entity in favor of or to other third parties. Xiangyu PRC is entitled to receive all dividends derived from the pledged equity interests. Xiangyu PRC is entitled to demand repayment of the secured indebtedness and/or to exercise its rights to sell the pledged equity interests on occurrence of certain events of default including but not limited to non-performance or breach of any of the Composite Services Agreement, the Option Agreement and the Proxy Agreement; or failure to repay other debts when due by the PRC Operational Entity, Mr. Liu or Ms. Zhou (as the case may be).

The Equity Pledge Agreement became effective from the date of its execution and shall terminate upon performance of all obligations under the Composite Services Agreement, the Option Agreement and the Proxy Agreement in full.

(v) Vessel Pledge Agreements

The PRC Operational Entity and Xiangyu PRC have entered into three vessel pledge agreements (“**Vessel Pledge Agreements**”) dated April 19, 2011, pursuant to which the PRC Operational Entity has pledged in favor of Xiangyu PRC (i) its entire interest in the dredger “Zhuayang No. 101; (ii) its 50% interest in the dredger “Kaijin No. 1” and (iii) its 50% interest in the dredger “Kaijin No. 3” to Xiangyu PRC, as security for the due payment of the consultation service fees and repayment of the surety money (as well as related interest and expenses, etc.) then owing by the PRC Operational Entity to Xiangyu PRC under the Composite Services Agreement.

Pursuant to the Vessel Pledge Agreements, without the prior written consent of Xiangyu PRC, the PRC Operational Entity shall not pledge or dispose of its interests in the pledged vessels or any part thereof. Xiangyu PRC is entitled to exercise its rights to sell the pledged vessels on occurrence of certain events of default, including but not limited to the non payment of the secured indebtedness or non-performance of the Composite Services Agreement.

The Vessel Pledge Agreements became effective from the date of its execution and shall terminate upon payment or repayment of the consultation service fees, surety money and all other related expenses under the Composite Services Agreement.

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

Power Wealth BVI was incorporated on May 17, 2010 and one ordinary share of US\$1.00 each was allotted and issued to Mr. Liu on June 18, 2010. Xiangyu PRC was established on June 11, 2010 as a wholly owned subsidiary of Power Wealth HK. On June 30, 2010, Power Wealth BVI acquired from Mr. Liu 100,000 shares of HK\$1 each in Power Wealth HK, representing its entire issued share capital, in consideration of and in exchange for which Power Wealth BVI allotted and issued, credited as fully paid, a total of 9,999 new shares of US\$1.00 each in its capital to Mr. Liu. Accordingly, Power Wealth HK became the wholly owned subsidiary of Power Wealth BVI. Prior to the Reorganisation and on August 18, 2010, Mr. Liu transferred the entire issued share capital of Power Wealth BVI (being 10,000 ordinary shares of US\$1.00 each) to Wangji Limited, a company wholly owned by himself. On September 18, 2010, Power Wealth BVI, further issued and allotted 10,000 new shares of US\$1.00 each at a consideration of RMB173,548,000 to Wangji Limited to raise additional capital for the Group. Through a share exchange as part of the Reorganization which was completed on April 19, 2011 by interspersing the Company between Power Wealth BVI and Wangji Limited, the Company became the holding company of the companies now comprising the Group on the same date.

As PRC Operational Entity, 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, the PRC Operational Entity and Xiangyu PRC are accounted for as subsidiaries of the Company throughout the Track Record Period on a merger basis. The assets, liabilities and results of PRC Operational Entity and Xiangyu PRC are included in the Financial Information of the Group as if the Company had always been the parent of PRC Operational Entity and Xiangyu PRC.

The combined statements of comprehensive income, combined statements of changes in equity and combined statements 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 Track Record Period or since their respective date of incorporation or establishment. The combined statements of financial position of the Group as at December 31, 2008, 2009 and 2010 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those dates.

The Financial Information is presented in Renminbi (“RMB”), the currency of the primary economic environment in which the Company and its principal subsidiaries operate (functional currency of the Company and its principal subsidiaries).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently adopted Hong Kong Accounting Standards (“HKASs”), HKFRSs, amendments and interpretations (“HK(IFRIC)-Int”), which are effective for the accounting period beginning on January 1, 2010 throughout the Track Record Period, except for HKFRS 3 (revised 2008), which has been applied for business combination for which the acquisition date is on or after January 1, 2010 and HKAS 27 (revised) which has been applied for accounting period beginning on January 1, 2010.

At the date of this report, the HKICPA has issued the following new and revised standards, amendments and interpretations that have not yet become effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ²
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ³
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets ³
HKFRS 9	Financial Instruments ⁴
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁵
HKAS 24 (Revised)	Related Party Disclosures ⁶
HKAS 32 (Amendments)	Classification of Rights Issues ⁷
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement ⁶
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ²

¹ Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate.

² Effective for annual periods beginning on or after July 1, 2010.

³ Effective for annual periods beginning on or after July 1, 2011.

⁴ Effective for annual periods beginning on or after January 1, 2013.

⁵ Effective for annual periods beginning on or after January 1, 2012.

⁶ Effective for annual periods beginning on or after January 1, 2011.

⁷ Effective for annual periods beginning on or after February 1, 2010.

While the Group has not early adopted these new and revised standards, amendments and interpretations in the preparation of the Financial Information, the directors of the Company anticipate that their application will have no material impact on the Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis, as explained in the accounting policies set out below which conform with the HKFRSs issued by the HKICPA.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of combination

The Financial Information incorporates the financial statements of companies now comprising the Group.

Where necessary adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on combination.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operation policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

Merger accounting for business combination involving entities under common control

The Financial Information incorporates the financial statement items of the combining entities when a common control combination has occurred as if they had been combined from the date when the combining entities first came under the control of the common controlling shareholders. The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquire's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statement of comprehensive income includes the results of each of the combining entities from the earliest date presented or since the date when combining entities first came under common control, where this is a shorter period, regardless of the date of the common control combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from services income are recognized when services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amounts of the item) is included in profit or loss in the period in which the item is derecognized.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognized as an expense on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (*i.e.*, the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the year in which they are incurred.

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Retirement benefit costs

Payments to defined contribution scheme are charged as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes, are dealt with as payments to defined contribution scheme where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled, or the asset is realized based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Financial instruments

Financial assets and financial liabilities are recognized in the combined statements of financial position when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a director and bank balances) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables, secured bank borrowings and amount due to a director) are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Estimated allowance for trade and other receivables

Management regularly reviews the recoverability of trade and other receivables. Allowance for these receivables is made based on evaluation of collectability and on management's judgment by reference to the estimation of the future cash flows discounted at an effective rate to calculate the present value. A considerable amount of judgment is required in assessing the ultimate realization of these debtors, including their current creditworthiness. If the actual future cash flows were less than expected, additional allowance may be required.

Estimated useful life of property, plant and equipment

Dredgers and plant and machinery included in property, plant and equipment are depreciated over their useful economic lives. The assessment of estimated useful lives is a matter of judgment based on the experience of the Group, taking into account factors such as technological progress, conditions of the dredgers and plant and machinery and changes in market demand. Useful lives are periodically reviewed for continued appropriateness. Due to long lives of the dredgers and plant and machinery, changes to the estimates used can result in variation in their carrying value.

5. REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the directors, who are also the chief operating decision makers that are used to make strategic decisions.

The Group has two operating segments, namely (i) Dredging Business and (ii) Dredging Related Construction Business. The segments are managed separately as each business offers different services and requires different marketing strategies.

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

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

An analysis of the Group's revenue and segment results, and other selected financial information for the Track Record Period by operating segment is as follows:

	Dredging Business	Dredging Related Construction Business	Total
	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2008			
Segment revenue	97,804	35,545	133,349
Segment results	<u>52,356</u>	<u>9,006</u>	61,362
Unallocated income:			
Bank interest income			10
Other income			4,282
Unallocated corporate expenses			(2,913)
Finance costs			<u>(816)</u>
Profit before tax			<u>61,925</u>
For the year ended December 31, 2009			
Segment revenue	287,967	58,582	346,549
Segment results	<u>109,204</u>	<u>14,408</u>	123,612
Unallocated income:			
Bank interest income			11
Other income			4,792
Unallocated corporate expenses			(5,127)
Finance costs			<u>(1,317)</u>
Profit before tax			<u>121,971</u>
For the year ended December 31, 2010			
Segment revenue	362,766	12,117	374,883
Segment results	<u>167,663</u>	<u>2,397</u>	170,060
Unallocated income:			
Bank interest income			26
Unallocated corporate expenses			(9,246)
Listing expenses			(21,531)
Finance costs			<u>(3,640)</u>
Profit before tax			<u>135,669</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segments results represent the profit earned by each segment without allocation of central administrative costs and marketing and promotion expenses, directors' salaries, staff cost for corporate office, other income and finance costs. This is the measure reported to the Group's executive directors for the purposes of resource allocation and performance assessment.

Depreciation of property, plant and equipment has been included in the segment results of the Dredging Business due to the related property, plant and equipment are operated in this segment.

Segment assets and liabilities

As the assets and liabilities are regularly reviewed by the executive directors in total for the Group as a whole, the measure of total assets and liabilities by operating segment is therefore not presented.

Geographical information

As all the Group's revenue is derived from its operation in the PRC and substantially all its assets and liabilities are located in the PRC, no geographical information is presented.

Information about major customers

An analysis of revenue from customers contributing to over 10% of the Group's total sales for the year is as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Customer A			
— Dredging business	30,748	134,064	181,594
— Dredging Related Construction business	35,548	53,447	12,117
Customer B			
— Dredging business	28,279	36,989	—
Customer C			
— Dredging business	16,435	70,459	152,122
Customer D			
— Dredging business	—	35,609	—

6. OTHER INCOME

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Gross rental income from sub-lease of chartered dredgers and lease of self-owned plant and machinery	10,359	5,231	—
Less: Related rental expenses and business tax	(6,077)	(439)	—
Net rental income	<u>4,282</u>	<u>4,792</u>	<u>—</u>
Bank interest income	10	11	26
	<u>4,292</u>	<u>4,803</u>	<u>26</u>

7. FINANCE COSTS

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Interest expense on:			
Bank borrowings wholly repayable within five years	671	1,249	2,285
Discounted bills	145	68	1,355
	<u>816</u>	<u>1,317</u>	<u>3,640</u>

8. INCOME TAX EXPENSE

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current tax:			
PRC Enterprise Income Tax ("EIT")			
— current year	16,261	33,130	40,639

notes:

(i) Hong Kong

No provision for Hong Kong Profits Tax has been provided as entities within the Group had no assessable profit subject to Hong Kong Profits Tax during the Track Record Period.

(ii) The PRC

Prior to the New EIT Law and Implementation Regulations (as defined below), PRC Enterprise Income Tax was calculated at 33% of an entity's assessable profit. On March 16, 2007, the National People's Congress promulgated the Law of the PRC on Enterprise Income Tax (the "New EIT Law") by order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law (the "Implementation Regulations"). The New EIT Law and Implementation Regulations changed the PRC Enterprise Tax rate from 33% to 25% from January 1, 2008 onwards. Accordingly, the PRC Operational Entity was subject to PRC Enterprise Income Tax at the rate of 25% for the Track Record Period.

Because the dredging services performed by the PRC Operational Entity was part of the large-scale and long term government infrastructure projects undertaken by its customers, the finalization of these projects are subject to complex processes of certifications by various parties, the relevant tax authority has, on December 17, 2007, agreed that the PRC Operational Entity was not required to file tax returns and pay relevant income tax until these projects were fully completed by the customers. Accordingly, during the Track Record Period, the PRC Operational Entity only paid provisional tax of approximately RMB2,048,000 based on mutual agreement with the relevant tax authority.

For the purpose of preparing the Financial Information, the PRC Operational Entity provided for PRC Enterprise Income Tax for the Track Record Period based on the applicable tax rates. On September 21, 2010, the PRC Operational Entity filed the audited financial statements prepared in accordance with PRC GAAP for the period from date of establishment to December 31, 2007 and each of the two years ended December 31, 2009 to the relevant tax authority. On September 26, 2010, the PRC Operational Entity paid an amount of RMB27,459,000 and Mr. Liu, as its controlling shareholder, paid on behalf of the PRC Operational Entity an amount of approximately RMB21,833,000 to the relevant tax authority, to settle the EIT tax liability attributable to these years.

The tax charge for the Track Record Period can be reconciled to the profit before tax per the combined statements of comprehensive income as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit before tax	61,925	121,971	135,669
Tax at the domestic income tax rate (<i>note</i>)	15,482	30,493	33,917
Tax effect of expenses not deductible for tax purpose.	779	2,637	6,722
Tax charge for the year	<u>16,261</u>	<u>33,130</u>	<u>40,639</u>

note: The PRC EIT rate is 25% for the Track Record Period.

9. PROFIT FOR THE YEAR

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit for the year has been arrived at after charging:			
Directors' emoluments (<i>note 10</i>)	94	92	951
Other staff costs	3,319	6,592	15,837
Retirement benefit scheme contributions, excluding those of directors.	518	957	1,161
Total staff costs	<u>3,931</u>	<u>7,641</u>	<u>17,949</u>
Auditor's remuneration.	9	9	17
Depreciation of property, plant and equipment.	2,251	3,300	11,618
Sub-contracting charges included in operating cost			
— Dredging business.	7,584	109,012	2,884
— Dredging related construction business.	26,539	44,174	9,720
	<u>34,123</u>	<u>153,186</u>	<u>12,604</u>

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

Details of the emoluments paid to the directors of the Company during the Track Record Period are as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Fee	—	—	—
Salaries and other allowances	83	79	944
Retirement benefit scheme contributions	11	13	7
	<u>94</u>	<u>92</u>	<u>951</u>
Executive directors:			
Mr. Liu	94	92	951
Ms. Zhou	—	—	—
	<u>94</u>	<u>92</u>	<u>951</u>
Non-executive director:			
Mr. Dong Liyong	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Independent non-executive director:			
Ms. Leung Mei Han	—	—	—
Mr. Zhang Jun	—	—	—
Ms. Peng Cuihong	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
	<u>94</u>	<u>92</u>	<u>951</u>

Employees

Of the Group's five highest paid individuals during the Track Record Period, one of them is a director of the Company for the year ended December 31, 2008 and 2010 whose emoluments presented above. The emoluments of the remaining highest paid individuals, are as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Salaries and other allowances	607	758	3,109
Retirement benefit scheme contributions	65	134	28
	<u>672</u>	<u>892</u>	<u>3,137</u>

note: The emolument of each of the above employees is below HK\$1,000,000 (equivalent to approximately RMB900,000).

During the Track Record Period, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Track Record Period.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Track Record Period is based on the following data:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Earnings			
Profit for the year attributable to equity holders of the Company	<u>45,664</u>	<u>88,841</u>	<u>95,030</u>
Number of shares			
Weighted average number of shares for the purpose of basic earnings per share ('000)	<u>79,551</u>	<u>110,975</u>	<u>250,314</u>

The weighted average number of shares for the purpose of basic earnings per shares is calculated based on the 100,000,000 shares in issue and 500,000,000 shares to be issued upon the capitalization issue and reorganization as described in "Statutory and General Information" in Appendix VII, and also have taken into account the weighted average effect of the capital injection by Mr. Liu to the Group during the Track Record Period.

No diluted earnings per share is presented as there were no potential dilutive shares in issue.

12. DIVIDENDS

No dividend has been paid or declared by the Company or its subsidiaries since the date of its incorporation or during the three years ended December 31, 2010.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building	Dredgers	Plant and machinery	Furniture, fittings and office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At January 1, 2008	4,221	—	14,573	6	130	18,930
Additions	<u>—</u>	<u>24,316</u>	<u>107</u>	<u>63</u>	<u>2,575</u>	<u>27,061</u>
At December 31, 2008	4,221	24,316	14,680	69	2,705	45,991
Additions	<u>—</u>	<u>—</u>	<u>48</u>	<u>17</u>	<u>370</u>	<u>435</u>
At December 31, 2009	4,221	24,316	14,728	86	3,075	46,426
Additions	<u>—</u>	<u>346,000</u>	<u>53</u>	<u>54</u>	<u>1,404</u>	<u>347,511</u>
At December 31, 2010	<u>4,221</u>	<u>370,316</u>	<u>14,781</u>	<u>140</u>	<u>4,479</u>	<u>393,937</u>
DEPRECIATION						
At January 1, 2008	14	—	445	—	9	468
Provided for the year	<u>85</u>	<u>878</u>	<u>990</u>	<u>12</u>	<u>286</u>	<u>2,251</u>
At December 31, 2008	99	878	1,435	12	295	2,719
Provided for the year	<u>85</u>	<u>1,621</u>	<u>1,008</u>	<u>14</u>	<u>572</u>	<u>3,300</u>
At December 31, 2009	184	2,499	2,443	26	867	6,019
Provided for the year	<u>85</u>	<u>9,789</u>	<u>1,020</u>	<u>22</u>	<u>702</u>	<u>11,618</u>
At December 31, 2010	<u>269</u>	<u>12,288</u>	<u>3,463</u>	<u>48</u>	<u>1,569</u>	<u>17,637</u>
CARRYING VALUE						
At December 31, 2008	<u>4,122</u>	<u>23,438</u>	<u>13,245</u>	<u>57</u>	<u>2,410</u>	<u>43,272</u>
At December 31, 2009	<u>4,037</u>	<u>21,817</u>	<u>12,285</u>	<u>60</u>	<u>2,208</u>	<u>40,407</u>
At December 31, 2010	<u>3,952</u>	<u>358,028</u>	<u>11,318</u>	<u>92</u>	<u>2,910</u>	<u>376,300</u>

The Group's leasehold land and building is held under a medium term lease in Hong Kong.

The leasehold interest in land cannot be allocated reliably between the leasehold land and building elements, the leasehold interest in land is accounted for as property, plant and equipment.

As at December 31, 2010, two dredgers of the Group with an aggregate carrying value of approximately RMB337,832,000 were pledged to secure the borrowings obtained by Wangji Limited, the holding company of the Group. Details of these are set out in note 24(III).

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives using the straight line method, and after taking into account their estimated residual values (if any) on the following bases:

Leasehold land and building	2%
Dredgers	5%–6.7%
Plant and machinery	6.7%
Furniture, fittings and office equipment	10%–20%
Motor vehicles	10%–20%

14. (a) RENTAL DEPOSITS

	At December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Rental deposits for chartered dredgers	1,000	3,000	—

The amount represents the rental deposits paid for the chartered dredgers with lease terms over one year.

(b) TRADE AND OTHER RECEIVABLES

Trade receivables	60,681	215,703	216,084
Less: Allowance on trade receivables	—	—	—
	60,681	215,703	216,084
Bills receivable	—	—	42,000
Deposits, prepayments and other receivables			
Rental deposits for chartered dredgers with short term leases	3,000	1,000	2,073
Rental receivables	1,400	500	300
Retention receivables	609	9,317	6,224
Deposits and prepayments	17	2,524	12,431
Others	—	1,205	1,328
	5,026	14,546	22,356
	65,707	230,249	280,440

The Group prepares an aged analysis for its trade receivables based on the dates when the Group and the customers agreed on the quantum of the services provided, as evidenced by progress certificates. Monthly statements are issued by the Group and agreed with 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 70% to 80% of the value of work completed in the previous month) within thirty days after the issuance of the progress certificate each month. According to these contracts, the remaining balance (20% to 30% of the value of work completed) is to be paid by the customers within thirty to sixty days after the project is completed and the customers received payment from the project owners. The aged analysis of the Group's trade receivables (net of allowance on trade receivables) at the end of each reporting period is as follows:

<u>Aged analysis of the Group's trade receivables</u>	<u>At December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
0-30 days	21,683	91,015	65,036
31-60 days	2,385	33,154	32,045
61-90 days	10,818	17,231	21,844
91-180 days	21,758	50,682	62,552
Over 180 days	4,037	23,621	34,607
	<u>60,681</u>	<u>215,703</u>	<u>216,084</u>

The bills receivable is aged within 0-30 days.

Retention receivables represent trade receivable retained by customers during the maintenance period which is normally less than one year from the completion of provision of services. The Group prepares an aged analysis for its retention receivables based on the date of the last monthly progress certificate of the project. The aged analysis of the Group's retention receivables at the end of each reporting period is as follows:

<u>Aged analysis of the Group's retention receivables</u>	<u>At December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
0-30 days	431	4,938	—
31-60 days	—	267	—
61-90 days	178	—	22
91-180 days	—	2,273	1,323
Over 180 days	—	1,839	4,879
	<u>609</u>	<u>9,317</u>	<u>6,224</u>

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.

Included in the Group's trade receivable balance are debtors which were past due as at the reporting date but for which the Group has not provided for impairment loss as follows:

Aging of trade receivables which were past due but not impaired

	<u>At December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
0-30 days	17,917	47,466	13,722
31-60 days	2,295	27,828	4,065
61-90 days	10,147	14,962	81
91-180 days	14,400	27,660	84
Over 180 days	1,282	19,682	10,280
	<u>46,041</u>	<u>137,598</u>	<u>28,232</u>

The Group does not hold any collateral over the above balances, but management considers that no impairment loss needs to be recognized 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 the Track Record Period.

15. AMOUNT DUE FROM (TO) A DIRECTOR

The amount is due from (to) Mr. Liu and is unsecured, interest-free and non-trade in nature. The balance due to Mr. Liu at December 31, 2010 was fully settled as at the date of this report.

The maximum outstanding amount due from Mr. Liu during the Track Record Period are as follows:

	<u>Year ended December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Amount due from Mr. Liu	36,088	92,220	100,481

16. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise cash and short-term bank deposits with an original maturity of three months or less. The bank balances carry interest rates as follows:

	<u>At December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Range of interest rates (per annum)	0.1%–0.72%	0.01%–0.36%	0.01%–0.36%

17. TRADE AND OTHER PAYABLES

	<u>At December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Trade payables	37,870	114,107	103,106
Other payable and accruals	6,588	13,405	17,990
Receipts in advance	—	2,000	3,991
Others	77	497	2,591
	<u>6,665</u>	<u>15,902</u>	<u>24,572</u>
	<u>44,535</u>	<u>130,009</u>	<u>127,678</u>

The aged analysis of the Group's trade payables as at the end of each reporting period is as follows:

	<u>At December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
0–30 days	4,043	47,531	22,730
31–60 days	2,547	13,809	13,042
61–90 days	5,478	14,631	11,081
91–180 days	15,945	22,842	16,507
Over 180 days	9,857	15,294	39,746
	<u>37,870</u>	<u>114,107</u>	<u>103,106</u>

18. SECURED BANK BORROWINGS

	At December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Secured bank borrowings repayable within one year	7,500	27,500	40,000

The Group's secured bank borrowings at December 31, 2008 and 2009 carried variable interest rate with reference to the benchmark borrowing rate of The People's Bank of China ("Benchmark rate") plus certain basis point. The Group's secured bank borrowings at December 31, 2010 carried fixed interest rate ranged from 4.87% to 5.31 % per annum. The effective interest rates of the secured bank borrowings (which are also equal to contracted interest rates) were as follows:

	At December 31,		
	2008	2009	2010
	7.99%	6.37%	4.87%–5.31%
Effective interest rate (per annum)	(Benchmark rate plus 20%)	(Benchmark rate plus 20%)	(Fixed interest rate)

The Group's secured bank borrowings were secured by the properties held by related parties and guarantee given by the related parties, details of which are set out in note 24.

19. PAID-IN-CAPITAL/SHARE CAPITAL

For the purpose of the preparation of the combined statements of financial position, the balances of the paid-in capital/share capital at December 31, 2008 and 2009 represents the aggregate amount of the paid-in capital of the PRC Operational Entity and the share capital of Power Wealth HK contributed by Mr. Liu.

On August 18, 2010, Power Wealth BVI issued and allotted 9,999 new shares of US\$1.00 each to acquire the entire issued share capital of Power Wealth HK from Mr. Liu (the "Share Exchange"). On September 18, 2010, Power Wealth BVI further issued and allotted 10,000 new shares of US\$1.00 each at a total consideration of RMB173,548,000 to Wangji Limited to raise additional capital for the Group. Accordingly, the balance of paid-in capital/share capital at December 31, 2010 represents the paid-in capital of the PRC Operational Entity and the share capital of Power Wealth BVI.

20. MAJOR NON-CASH TRANSACTION

- (i) During the year ended December 31, 2008, a dredger with an amount of approximately RMB24,316,000 was injected by Mr. Liu to PRC Operational Entity as paid-in capital.
- (ii) During the year ended December 31, 2010, two dredgers with an aggregate amount of approximately RMB346,000,000 were acquired through the amount due to a director. In addition, deposits of RMB28,494,000 paid for the acquisition of these dredgers and outstanding as at December 31, 2009 were also transferred to property, plant and equipment during the year ended December 31, 2010.

21. OPERATING LEASES

The Group as lessee

(i) *Minimum lease payments paid*

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Minimum lease payments paid under operating lease during the year:			
— chartered dredgers	15,698	20,848	71,957
— office premises	—	—	351
	<u>15,698</u>	<u>20,848</u>	<u>72,308</u>

(ii) *Minimum lease payment commitment*

At the end of the respective reporting period, the Group was committed to make the following future minimum charter payments under non-cancellable operating leases which fall due as follows:

(a) *Chartered dredgers*

	At December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within one year	17,109	13,009	43,064
In the second to fifth year inclusive	2,310	13,200	—
	<u>19,419</u>	<u>26,209</u>	<u>43,064</u>

The leases for chartered dredgers are generally negotiated for a term from one to two years.

(b) *Office premises*

	At December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within one year	—	51	858
In the second to fifth year inclusive	—	204	832
Over five years	—	306	245
	<u>—</u>	<u>561</u>	<u>1,935</u>

The leases for office premises are generally negotiated for a term from one to ten years.

The Group as lessor

Rental income earned during the Track Record Period is set out in note 6.

At the end of the respective reporting period, the Group had contracted with the lessees in respect of sub-lease of chartered dredgers and lease of plant and machinery for the followings future minimum lease receipts:

	At December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within one year	2,800	—	—
In the second to fifth year inclusive	—	—	—
	2,800	—	—

22. CAPITAL COMMITMENTS

The PRC Operational Entity entered into a letter of intent to acquire a dredger in 2008 but the terms and the consideration were not concluded until 2010. Deposits of RMB18,700,000 and RMB28,494,000 were paid and outstanding as at December 31, 2008 and 2009 respectively. The acquisition of the dredger were completed during the year ended December 31, 2010. No further capital commitment is for the dredger acquisition was outstanding as at December 31, 2010.

Power Wealth HK entered into leasehold improvement contracts for office decoration during the year ended December 31, 2010 for a total amount of approximately RMB390,000. Deposit of RMB273,000 was paid as at December 31, 2010 and capital commitment of RMB117,000 outstanding as at December 31, 2010.

23. RETIREMENT BENEFIT PLANS

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the respective local government in the PRC. The Group is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the scheme is to make the specified contributions.

24. RELATED PARTY DISCLOSURES

(I) Related party transactions

During the Track Record Period, the Group had the following transactions with related parties:

Related party	Nature of transaction	Year ended December 31,		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Mr. Liu	Acquisition of dredgers	—	—	346,000
	Capital injection in the form of dredgers	24,316	—	—
	PRC EIT tax paid on behalf of the PRC Operational Entity	—	—	21,833
Yancheng City San Ben Concrete Company Limited (鹽城三本混凝土有限公司) ("San Ben Concrete")	Rental expense*	—	—	51
Yancheng Xingyu Construction Material Manufacturing Company Limited (鹽城興宇建材製造有限公司) ("Xingyu Construction")	Rental expense*	—	—	10

On December 30, 2009, the PRC Operational Entity entered into a rental agreement with San Ben Concrete, a company controlled by Mr. Liu, for the lease of office premise with a lease term of 10 years. Pursuant to the relevant tenancy agreement, the term of tenancy commenced from December 30, 2009 and will expire on December 29, 2019 at an annual rental of RMB51,000.

In addition, during the Track Record Period and up to July 15, 2010, the PRC Operational Entity occupied certain office space owned by Xingyu Construction, a company controlled by Mr. Liu, without charge. Pursuant to a tenancy agreement entered into between the PRC Operational Entity and Xingyu Construction on July 16, 2010, a term of tenancy was established for the period from July 16, 2010 to June 30, 2013 at an annual rental of RMB40,000.

* Except for the PRC Operational Entity occupied certain office space owned by Xingyu Construction without charge during the Track Record Period and up to July 15, 2010, in the opinion of the directors, the transactions with Xingyu Construction from July 16, 2010 to December 31, 2010 and transaction with San Ben Concrete are carried out on normal commercial terms.

The fund transfers through current account with Mr. Liu during the Track Record Period are set out in the combined statements of cash flows.

The directors of the Company represented that only the rental transactions are expected to be continued after the listing of the Company's Shares on the Stock Exchange.

(II) Guarantees and pledge of assets in support of the Group's borrowings

Throughout the Track Record Period, the Group's secured bank borrowings were supported by:

- (i) personal guarantees provided by Mr. Liu;
- (ii) pledge of properties owned by (a) Mr. Liu; (b) Ms. Zhou and Li Jing (李靜), (both are directors of the PRC Operational Entity) and (c) Yancheng Feng Yu Machinery Company Limited (鹽城市豐宇機械有限公司) and Xingyu Construction, both are companies controlled by Mr. Liu.

As of December 31, 2010, the pledge of properties in item (ii) was released and the security to the Group's bank borrowings was replaced with the corporate guarantee given by Xiangyu PRC.

The guarantees provided by Mr. Liu was released prior to the listing of the Company's shares on the Stock Exchange.

(III) Pledge of the Group's assets in support of loans granted to holding company

- (a) On September 7, 2010, Wangji Limited obtained a loan of HK\$230 million from a financial institution (the "**Financial Institution**"). The collaterals of such loan are: (i) personal guarantee by Mr. Liu; (ii) pledge of the entire share capital of Wangji Limited; (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 of its dredgers. On September 18, 2010, Wangji Limited applied an amount of HK\$200 million out of the above loan proceed to subscribe for an additional 10,000 shares in Power Wealth BVI. On October 4, 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 Limited on that same date as more described in note (b) below.
- (b) On October 4, 2010, Wangji Limited obtained a loan of HK\$153 million from another financial institution. The collaterals of such loan are: (i) personal guarantee by Mr. Liu; (ii) pledge of the 40% of the share capital of Wangji Limited; (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 of its dredgers.

Collaterals (iii) to (v) as stated above are expected to be released upon listing of the Company's shares on the Stock Exchange. The collateral over the equity interest in Wangji Limited shall be released upon the entire loans owing by Wangji Limited to the relevant financial institutions have been discharged in full. The personal guarantee provided by Mr. Liu shall be released upon all obligations (including but not limited to the payment of the performance compensation mentioned therein) on the part of Mr. Liu under the warrant agreements dated September 7, 2010 and October 4, 2010 respectively between Wangji Limited and the relevant financial institutions have been performed and discharged in full.

Further details of the above transactions are set out in the section headed "History, Reorganisation and Corporate Structure — Pre-IPO Investments" in the Prospectus.

(IV) Related party balances

Details of the balance due from (to) Mr. Liu are set out in note 15.

(V) Compensation of key management personnel

The emolument of directors who are also identified as members of key management of the Group during the Track Record Period is set out in note 10.

25. CONTINGENT LIABILITY

As at December 31, 2009, the PRC Operational Entity issued a financial guarantee of RMB10,000,000 to a bank in respect of banking facility granted to a third party. The facility was fully utilized by that third party as at December 31, 2009. The financial guarantee was released in June 2010.

26. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group companies will be able to continue as a going concern while maximizing the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remained unchanged throughout the Track Record Period.

The capital structure of the Group consists of amount due to a director and secured bank borrowings as disclosed in notes 15 and 18 respectively and equity attributable to equity holders of the Company, comprising paid up capital/share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost and the risks associated with each class of the capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

27. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Financial assets			
Loans and receivables (including cash and cash equivalents)	92,879	310,610	278,456
Financial liabilities			
Amortized cost	56,752	153,002	169,570

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, trade and other payables, amount due from (to) a director, bank balances and secured bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk**(i) Interest rate risk**

The Group is mainly exposed to cash flow interest rate risk in relation to variable-rate bank borrowings as at December 31, 2008 and 2009. The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings as at December 31, 2010.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the Group's bank borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowing at the end of the reporting period.

The analysis is prepared assuming the amount of the outstanding at that date was outstanding for the whole year/period. 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower for bank borrowings, and all other variables were held constant, the Group's profits for the Track Record Period would decrease/increase as follow:

	Year ended December 31,		
	September 30,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit of the year	38	138	—

Credit risk

At the end of each reporting period, the Group's maximum exposure to credit risk which would cause a financial loss to the Group due to failure by the counterparties to discharge an obligation was arising from (i) the carrying amount of the respective recognized financial assets as stated in the combined statements of financial position; and (ii) the amount of contingent liability in relation to financial guarantee issued by the Group as disclosed in note 25.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and amount due from a director at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk on receivables is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The credit risk on financial guarantee given to the third party was limited because the management regularly communicated with the third party on its financial performance and evaluated whether the continuance of the guarantee was appropriate.

The Group was exposed to a concentration of credit risk on its amount due from a director as at December 31, 2008 and 2009. The management assessed the credit risk by reviewing the repayment from the director during and after the Track Record Period and considered the related default risk was not significant.

The Group also has a significant concentration of credit risk in relation to its trade customers as follows:

	<u>At December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	%	%	%
Amount due from the largest customer as a percentage to total trade receivables	42	54	34
Amount due from the five largest customers as a percentage to total trade receivables.	99	96	97

Because of its business nature, the Group normally only transacts with PRC government entities or large state-owned companies with solid financial background and hence the number of customers is typically small. Due to its small number, management regularly visits these customers to ensure that there is no dispute on the amounts due. In this regard, the directors consider that the Group's concentration of credit risk is mitigated.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilization of borrowings and ensures compliance with loan covenants.

The following tables detail Group's contractual maturity for its financial liabilities. The tables has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate	On demand/ less than 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2008					
<i>Non-derivative financial liabilities</i>					
Trade and other payables	—	37,870	—	37,870	37,870
Amount due to a director	—	11,382	—	11,382	11,382
Secured bank borrowings					
— variable rate	7.99	—	8,005	8,005	7,500
		<u>49,252</u>	<u>8,005</u>	<u>57,257</u>	<u>56,752</u>
As at December 31, 2009					
<i>Non-derivative financial liabilities</i>					
Trade and other payables	—	114,107	—	114,107	114,107
Amount due to a director	—	11,395	—	11,395	11,395
Secured bank borrowings					
— variable rate	6.37	—	28,451	28,451	27,500
Financial guarantee contract		10,000	—	10,000	—
		<u>135,502</u>	<u>28,451</u>	<u>163,953</u>	<u>153,002</u>
As at December 31, 2010					
<i>Non-derivative financial liabilities</i>					
Trade and other payables	—	103,106	—	103,106	103,106
Amount due to a director	—	26,464	—	26,464	26,464
Secured bank borrowings					
— fixed rate	5.09	—	40,592	40,592	40,000
		<u>129,570</u>	<u>40,592</u>	<u>170,162</u>	<u>169,570</u>

The amount included above for financial guarantee contract is the maximum amount the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on the expectation at December 31, 2009, the Group considered that it was more likely than not that no amount would be payable under the arrangement. The financial guarantee was released in June 2010.

The undiscounted cash flows on financial guarantee contract has been categorized into time band based on the earliest date the bank borrowing obtained by the third party are due for repayment in accordance with loan repayment schedule agreed with the respective lender.

(c) Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

28. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

At the time of its incorporation, the authorized share capital of the Company was HK\$200,000 divided into 2,000,000 ordinary shares of HK\$0.10 each. On May 31, 2010, one subscriber share was transferred by its subscriber to Mr. Liu at nil consideration and an aggregate of 999,999 ordinary shares were allotted and issued at nil paid by the Company to Mr. Liu. Other than the issue of nil paid shares, the Company had no other transaction during the Track Record Period.

B. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable by the Group to the directors of the Company in respect of the Track Record Period.

C. SUBSEQUENT EVENTS

The companies comprising the Group underwent and completed a group reorganization on April 19, 2011 in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganization are set out in the paragraph headed "Corporate Development" in the section headed "History, Reorganization and Corporate Structure" in the Prospectus. As a result of the Reorganization, the Company became the holding company of the Group.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, or of any companies comprising the Group, have been prepared in respect of any period subsequent to December 31, 2010.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The information set out in this appendix does not form part of the accountants' report prepared by the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong as set out in Appendix I "Accountants' Report" to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" and Appendix I "Accountants' Report" to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an unaudited pro forma statement of adjusted net tangible assets of the Group, which has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on December 31, 2010.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at December 31, 2010 or at any future dates.

	Audited combined net tangible assets of the Group as at December 31, 2010	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per Share	
	(Note 1)	(Note 2)		(Note 3)	(Note 4)
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price					
of HK\$3.19 per share	436,206	470,729	906,935	1.13	1.36
Based on an Offer Price					
of HK\$4.07 per share	436,206	612,321	1,048,527	1.31	1.57

notes:

- (1) The audited combined net tangible assets of the Group as at December 31, 2010 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on an Offering Price of HK\$3.19 (equivalent to RMB2.66) and HK\$4.07 (equivalent to RMB3.39) per share, respectively (after deducting the underwriting fees and other related expenses payable by the Company in connection with the Global Offering). For the purpose of the estimated net proceeds from the Global Offering, the amount stated in Hong Kong dollars has been converted into Renminbi at the rate of RMB0.83368 to HK\$1.0.
- (3) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustments referred to in note 2 in the preceding paragraph and on the basis that 800,000,000 Shares were in issue assuming that the Global Offering had been completed on December 31, 2010, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (4) The unaudited pro forma adjusted combined net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB0.83368 to HK\$1.0. No representation is made that the Renminbi amounts have been, could have or may be converted to Hong Kong dollars, or vice versa, at that rate.

- (5) As at April 30, 2011, the Group's property interests were revalued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV to this prospectus. The net valuation surplus, representing the excess of market value of the properties over their book value, is approximately RMB1,964,000. Such revaluation surplus has not been incorporated in the Group's combined financial information for the year ended December 31, 2010 and will not be incorporated in the Group's financial statements in the year ending December 31, 2011. The above adjustment does not take into account the above revaluation surplus. Had the properties been stated at such valuation, an additional depreciation and amortisation of approximately RMB39,000 per annum would have been charged against the combined statement of comprehensive income.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per share for the six months ending June 30, 2011 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2011. The unaudited pro forma forecast earnings per share has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the earnings per share of the Group for the six months ending June 30, 2011 or for any future periods following the Global Offering.

For the six months ending June 30, 2011

Forecast combined profit attributable to owners of the Company ⁽¹⁾	Not less than RMB94 million (equivalent to approximately HK\$113 million) ⁽³⁾
Unaudited pro forma forecast earnings per share ⁽²⁾	Not less than RMB0.12 (equivalent to approximately HK\$0.14) ⁽³⁾

notes:

- (1) The basis and assumptions on or which the above profit forecast have been prepared are summarized in Appendix III to this prospectus.
- (2) The calculation of the unaudited pro forma forecast earnings per share is based on the forecast combined profit attributable to owners of the Company for the six months ending June 30, 2011 and a total of 800,000,000 Shares in issue throughout the six months period, assuming that the Global Offering had been completed on January 1, 2011, without taking into the account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option.
- (3) The forecast combined profit attributable to owners of the Company and unaudited pro forma forecast earnings per share is converted into Hong Kong dollars at an exchange rate of RMB0.83368 to HK\$1.0. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa at that rate.

The following is the text of a report, prepared for inclusion in this prospectus, in respect of the unaudited pro forma financial information of the Group, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF XIANGYU DREDGING HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Xiangyu Dredging Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the global offering might have affected the financial information of the Group presented, for inclusion in sections under the heading of "Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" and "Unaudited Pro Forma Forecast Earnings Per Share" (the "**Unaudited Pro Forma Financial Information**") in Appendix II to the Company's prospectus dated June 8, 2011 (the "**Prospectus**"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 and II-2 of Appendix II of the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the

Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at December 31, 2010 or any future date; or
- the earnings per share of the Group for the six months ending June 30, 2011 or any future period.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

June 8, 2011

The forecast of the combined profit attributable to owners of our Company for the six months ending June 30, 2011 is set out in the section headed “Financial Information — Profit Forecast for the six months ending June 30, 2011” in this prospectus.

(A) BASIS AND ASSUMPTIONS

Our Directors have prepared the forecast combined profit attributable to owners of our Company for the six months ending June 30, 2011 based on the unaudited combined results of the Company and its subsidiaries (the “**Group**”) for the three months ended March 31, 2011, and a forecast of the combined results of the Group for the remaining three months ending June 30, 2011. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Group as set out in Note 3 of “Appendix I — Accountants’ Report” to this prospectus and is based on the following principal assumptions:

- (a) there will be no significant changes in existing political, legal, fiscal, market or economic conditions in the PRC, including changes in legislation, regulations, or rules, which may have a material adverse effect on the Group’s income;
- (b) there will be no significant changes in the government policies in the PRC in which we operate including, but not limited to, those in relation to dredging industry, which may adversely affect the Group’s business or operations;
- (c) there will be no material changes in the inflation rate, interest rates or foreign currency exchange rates in the PRC;
- (d) there will be no material change in the bases or rates of taxation, both direct and indirect, in the PRC;
- (e) the Group’s operations and business will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including the occurrence of natural disasters or catastrophes (such as floods and typhoons), epidemics or serious accidents;
- (f) there will be no material impacts of subsequent revisions of the accounting standards, which the Group currently adopted for preparation of the Group’s financial statements, to the Group’s financial reporting;
- (g) there will be no material change in the Group’s dividend policy. The Group might or might not declare dividend in the future. The timing, amount and form of future dividends, if any, will mainly depend on our results of operations and cash flows, our future prospects, general business conditions and our capital requirements and surplus;
- (h) There will be no significant changes in the Group’s expansion plans of business; and
- (i) There will be no material change in the timing of global offering.

We have undertaken to the Stock Exchange that the interim report of our Group for the six months ending June 30, 2011 will be audited pursuant to Rule 11.18 of the Listing Rules.

(B) LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter, prepared for inclusion in this prospectus, received by the Directors, the Sole Sponsor and from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in connection with the forecast of the Group's combined profit attributable to owners of the Company for the six months ending June 30, 2011.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

June 8, 2011

The Directors
Xiangyu Dredging Holdings Limited
Morgan Stanley Asia Limited

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the combined profit of Xiangyu Dredging Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") for the six months ending June 30, 2011 attributable to owners of the Company (the "**Forecast**"), for which the directors of the Company are solely responsible, as set out in the prospectus dated June 8, 2011 2011 (the "**Prospectus**") issued by the Company. The Forecast is prepared based on the results shown in the unaudited management accounts of the Group for the three months ended March 31, 2011 and a forecast of the results of the Group for the remaining three months of the period ending June 30, 2011.

In our opinion, the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company as set out in "Basis and assumptions" in Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report on the financial information of the Group for the three years ended December 31, 2010 as set out in Appendix I to the Prospectus.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

(C) LETTER FROM THE SOLE SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus by the Sole Sponsor in connection with the profit forecast for the six months ending June 30, 2011.

Morgan Stanley

June 8, 2011

The Directors
Xiangyu Dredging Holdings Limited

Dear Sirs,

We refer to the forecast of the combined profit attribute to the owners of Xiangyu Dredging Holdings Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) for the six months ending June 30, 2011 (the “**Profit Forecast**”) as set out in the prospectus issued by the Company dated June 8, 2011 (the “**Prospectus**”).

The Profit Forecast, for which the Directors of the Company are solely responsible, has been prepared by them based on the results shown in the unaudited combined management accounts of the Group for the three months ended March 31, 2011, and a forecast of the combined results for the remaining three months ending June 30, 2011.

We have discussed with you the bases and assumptions made by the Directors as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered, and relied upon, the letter dated June 8, 2011 addressed to yourself and ourselves from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and upon the bases and the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, we are of the opinion that the Profit Forecast, for which you as Directors of the Company are solely responsible, have been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Morgan Stanley Asia Limited

George Taylor
Managing Director

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at April 30, 2011 of the property interest of the Group.



Jones Lang LaSalle Sallmanns Limited
6/F Three Pacific Place
1 Queen's Road East Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

June 8, 2011

The Board of Directors
Xiangyu Dredging Holdings Limited

Dear Sirs,

In accordance with your instructions to value the properties in which Xiangyu Dredging Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC") and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at April 30, 2011 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interest in Group I by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

We have attributed no commercial value to the property interests in Group II and III, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been provided with copies of title documents relating to the property interest and have caused searches to be made at the Hong Kong Land Registry. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

We have been shown copies of various title documents including Building Ownership Certificates, Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Zhong Lun Law Firm, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong Dollars (HK\$). The exchange rate adopted in our valuation is approximately HK\$1=RMB0.84 which was approximately the prevailing exchange rate as the date of valuation.

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,

For and on behalf of

Jones Lang LaSalle Sallmanns Limited

Paul L. Brown

B.Sc. FRICS FHKIS

Chief Valuation Adviser

Gilbert C.H. Chan

MRICS MHKIS RPS (GP)

Director

Note: Paul L. Brown is a Chartered Surveyor who has 28 years' experience in the valuation of properties in the PRC and 31 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

Gilbert C.H. Chan is a Chartered Surveyor who has 19 years' experience in the valuation of properties in the PRC and 18 years of property valuation experience in Hong Kong, the United Kingdom as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interest owned and occupied by the Group in Hong Kong

<u>No.</u>	<u>Property</u>	Capital value in existing state as at April 30, 2011	Interest attributable to the Group	Capital value attributable to the Group as at April 30, 2011
		HK\$		HK\$
1.	Flat A8 on 14th Floor Block A Elizabeth House Nos. 250–254 Gloucester Road Causeway Bay Hong Kong	7,010,000	100%	7,010,000
	Sub-total:	<u><u>7,010,000</u></u>		<u><u>7,010,000</u></u>

Group II — Property interest rented and occupied by the Group in Hong Kong

<u>No.</u>	<u>Property</u>	Capital value attributable to the Group as at April 30, 2011
		HK\$
2.	Office 19 on 36th Floor China Merchants Tower Shun Tak Centre Nos. 168–200 Connaught Road Central Hong Kong	No commercial value
	Sub-total:	<u><u>Nil</u></u>

Group III — Property interests rented and occupied by the Group in the PRC

<u>No.</u>	<u>Property</u>	Capital value attributable to the Group as at April 30, 2011
		HK\$
3.	An office building located at No. 88 Weiliu Road Yancheng West District Yancheng City Jiangsu Province the PRC	No commercial value

No.	Property	Capital value attributable to the Group as at April 30, 2011
		HK\$
4.	Level 2 and 3 of an office building located at No. 1 Xingyu Road Baocai Industrial Park Panhuang Town Yancheng City Jiangsu Province the PRC	No commercial value
5.	Unit 202 of an office building located at Fenghuang Avenue South and Feixiang Road East West District of Yan Du Yancheng City Jiangsu Province the PRC	No commercial value
6.	Flat 101 of Entrance 4 of Block 109 Longsheng Local Community Haian Road Haigang Development Zone Tangshan City Hebei Province the PRC	No commercial value
7.	Flat 302 of Block 5 Tian Hong Local Community Yingkou City Liaoning Province the PRC	No commercial value
8.	Flat 101 of Entrance 2 of Block 27 Beiyuan Local Community Haibin Street Dagang District Tianjin City the PRC	No commercial value
9.	Flat 102 of Entrance 2 of Block 10 Chuangye Beili West District Dagang District Tianjin City the PRC	No commercial value

No.	Property	Capital value attributable to the Group as at April 30, 2011
		HK\$
10.	Flat 101 of Entrance 2 of Block 20 Si Ji Hua Ting Local Community Xinghai Lane Tanghai County Tangshan City Hebei Province the PRC	No commercial value
11.	Flats 301 and 401 of Entrance 3 of Block 11 District A Jin Hai Ming Zhu Dalian City Liaoning Province the PRC	No commercial value
12.	Flat 201 of Entrance 3 of Block 11 District A Jin Hai Ming Zhu Dalian City Liaoning Province the PRC	No commercial value
13.	Flat 1-201 of Entrance 3 of Block 18 Jin Hai Ming Zhu Dalian City Liaoning Province The PRC	No commercial value
14.	Flat 6-602 of Entrance 2 of Block 16 Jin Hai Ming Zhu Dalian City Liaoning Province The PRC	No commercial value
	Sub-total:	<u>Nil</u>
	Grand total:	<u><u>7,010,000</u></u>

VALUATION CERTIFICATE

Group I — Property interest owned and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at April 30, 2011 HK\$
1.	Flat A8 on 14th Floor Block A Elizabeth House Nos. 250–254 Gloucester Road Causeway Bay Hong Kong	The property comprises a unit on the 14th floor of a 28-storey composite building completed in about 1978. The unit has a gross floor area of approximately 65.50 sq.m. (705 sq.ft.)	The property is currently occupied by the Group for staff quarter purpose.	7,010,000 100% interest attributable to the Group: HK\$7,010,000
	15/11616th shares of the Remaining Portion of Inland Lot No. 6303, the Remaining Portion of Section B of Inland Lot No. 2835, Section D of Inland Lot No. 2835 and the Remaining Portion of Section A of Inland Lot No. 2833.	The land on which the subject building is located is held from the government for various lease terms: The Remaining Portion of Inland Lot No. 6303, is held for a term of 75 years renewable for 75 years commencing from October 18, 1947. The Remaining Portion of Section B of Inland Lot No. 2835 (with a government rent payable of HK\$26 per annum) and Section D of Inland Lot No. 2835, are held for a term of 99 years renewable for 99 years commencing from May 25, 1929. The Remaining Portion of Section A of Inland Lot No. 2833 (with a government rent payable of HK\$330 per annum), is held for a term of 99 years renewable for 99 years commencing from April 15, 1929.		

Notes:

- The registered owner of the property is Power Wealth Engineering Limited, a wholly owned subsidiary of the Company, vide Memorial No. 07111902380199 dated November 2, 2007 for a consideration of HK\$4,500,000.
- The property is subject to a Deed of Mutual Covenant vide Memorial No. UB1600287 dated September 25, 1978.
- The property is subject to an Order No. C/TB/001764/08/HK issued by the Building Authority under S.24(1) of the Buildings Ordinance vide Memorial No. 08050702370194 dated April 9, 2008. The said order required the owner to remove part of the external wall facing Gloucester Road and a structure attached to the external wall facing Gloucester Road.
- In our valuation, we have assumed that the above said order has been complied with to the satisfaction of the Building Authority and no reinstatement costs (if any) have been allowed for.

VALUATION CERTIFICATE

Group II — Property interest rented and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at April 30, 2011 HK\$
2.	Office 19 on 36th Floor China Merchants Tower Shun Tak Centre Nos. 168–200 Connaught Road Central Hong Kong	<p>The property comprises an office unit on the 36th floor of a 40-storey commercial building completed in about 1986.</p> <p>The unit has a gross floor area of approximately 100.37 sq.m. (or 1,080 sq.ft.)</p> <p>Pursuant to a Tenancy Agreement dated December 21, 2010, the property is leased to Power Wealth Engineering Limited, a wholly owned subsidiary of the Company, as lessee from Bestluck Holdings Limited, as lessor for a term of 2 years commencing on October 20, 2010 and expiring on October 19, 2012 at a monthly rent of HK\$65,000, exclusive of Government rents, rates, management fee, air-conditioning charges and all other outgoings.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Note:

- The registered owner of the Property is Bestluck Holdings Limited vide Memorial No. 10031802710071 dated February 26, 2010 for a consideration of HK\$277,000,000.

VALUATION CERTIFICATE

Group III — Property interests rented and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at April 30, 2011 HK\$
3.	An office building located at No. 88 Weiliu Road Yancheng West District Yancheng City Jiangsu Province the PRC	<p>The property comprises a 2-storey office building completed in about 2007.</p> <p>The property has a lettable area of approximately 780.42 sq.m.</p> <p>Pursuant to a Tenancy Agreement dated December 30, 2009 and a Supplementary Tenancy Agreement dated February 10, 2011, the property is leased to Jiangsu Xingyu Port Construction Company Limited (江蘇興宇港建有限公司), a wholly-owned subsidiary of the Company, as lessee, from Yancheng City San Ben Concrete Company Limited (鹽城市三本混凝土有限公司) (“San Ben Concrete”), a connected party, as lessor, for a term commencing from December 30, 2009 and expiring on December 29, 2019 at an annual rent of RMB51,000.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. the lessor is the legal owner of the subject property and has rights to lease the property;
 - b. the usage of the leased property is in accordance to the PRC law;
 - c. the tenancy agreement is legal, valid and enforceable to both parties, the company is entitled to use the property legally in the tenancy period;
 - d. the tenancy agreement is still valid and effective despite the tenancy agreement has not been registered. It will not affect the legality of the company to use the property; and
 - e. the property is subjected to a mortgage but it will not affect the use of the property by the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at April 30, 2011 HK\$
4.	Level 2 and 3 of an office building located at No. 1 Xingyu Road Baocai Industrial Park Panhuang Town Yancheng City Jiangsu Province the PRC	<p>The property comprises portion of Level 2 and 3 of a 5-storey office building completed in about 2006.</p> <p>The property has a lettable area of approximately 800 sq.m.</p> <p>Pursuant to a Tenancy Agreement dated July 16, 2010 and a Supplementary Tenancy Agreement dated July 27, 2010, the property is leased to Jiangsu Xingyu Port Construction Company Limited (江蘇興宇港建有限公司), a wholly owned subsidiary of the Company, as lessee, from Yancheng Xingyu Construction Material Manufacturing Company Limited (鹽城興宇建材製造有限公司) (“Xingyu Construction”), a connected party, as lessor, for a term commencing from July 16, 2010 and expiring on June 30, 2013, at an annual rent of RMB40,000.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. the lessor is the legal owner of the subject property and has rights to lease the property;
 - b. the usage of the leased property is in accordance to the PRC law;
 - c. the tenancy agreement is legal, valid and enforceable to both parties, the company is entitled to use the property legally in the tenancy period; and
 - d. the tenancy agreement is still valid and effective despite the tenancy agreement has not been registered. It will not affect the legality of the company to use the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at April 30, 2011 HK\$
5.	Unit 202 of an office building located at Fenghuang Avenue South and Feixiang Road East West District of Yan Du Yancheng City Jiangsu Province the PRC	<p>The property comprises an office unit on level 2 of a 2-storey residential building completed in about 2008.</p> <p>The property has a gross floor area of approximately 50 sq.m.</p> <p>Pursuant to a Tenancy Agreement dated July 7, 2010, the property is leased to Jiangsu Xiangyu Port Constructing Project Administration Co., Ltd. (江蘇翔宇港建工程管理有限公司), a wholly owned subsidiary of the Company, as lessee, from Jiangsu Cai Di Si Te Technology Development Company Limited (江蘇萊迪斯特科技發展有限公司), an independent third party, as lessor, for a term commencing from July 18, 2010 and expiring on July 17, 2012, at nil consideration.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. the lessor is the legal owner of the subject property and has rights to lease the property;
 - b. the usage of the leased property is in accordance to the PRC law;
 - c. the tenancy agreement is legal, valid and enforceable to both parties, the company is entitled to use the property legally in the tenancy period; and
 - d. the tenancy agreement is still valid and effective despite the tenancy agreement has not been registered. It will not affect the legality of the company to use the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at April 30, 2011 HK\$
6.	Flat 101 of Entrance 4 of Block 109 Longsheng Local Community Haian Road Haigang Development Zone Tangshan City Hebei Province the PRC	<p>The property comprises a unit on Level 1 of a 5-storey residential building completed in about 2003.</p> <p>The property has a lettable area of approximately 140 sq.m.</p> <p>Pursuant to a Tenancy Agreement dated October 23, 2010, the property is leased to Jiangsu Xingyu Port Construction Company Limited (江蘇興宇港建有限公司), a wholly owned subsidiary of the Company, as lessee, from Huang Xue Lan (黃學蘭), an independent third party, as lessor, for a term of 1 year commencing from October 23, 2010 and expiring on October 22, 2011 at an annual rent of RMB18,000 exclusive of water and electricity charges.</p>	The property is currently occupied by the Group for staff quarter purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. if the lessor does not hold the title of the property, the aforesaid Tenancy Agreement may be null and void; and
 - b. there will have no material adverse effect to the business and operation of the Company if the aforesaid Agreement is judged to be invalid as it can be relocated without incurring substantial costs.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at April 30, 2011 HK\$
7.	Flat 302 of Block 5 Tian Hong District Yingkou City Liaoning Province the PRC	<p>The property comprises a unit on level 3 of a 4-storey residential building completed in about 2007.</p> <p>The property has a gross floor area of approximately 147.03 sq.m.</p> <p>Pursuant to a Tenancy Agreement dated June 26, 2010, the property is leased to Jiangsu Xingyu Port Construction Company Limited (江蘇興宇港建有限公司), a wholly owned subsidiary of the Company, as lessee, from Huang Haibo (黃海波), an independent third party, as lessor, for a term of 1 year commencing from July 20, 2010 and expiring on July 20, 2011, at an annual rent of RMB18,000.</p>	The property is currently occupied by the Group for staff quarter purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. the lessor is the legal owner of the subject property and has rights to lease the property;
 - b. the usage of the leased property is in accordance to the PRC law;
 - c. the tenancy agreement is legal, valid and enforceable to both parties, the company is entitled to use the property legally in the tenancy period; and
 - d. the tenancy agreement is still valid and effective despite the tenancy agreement has not been registered. It will not affect the legality of the company to use the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at April 30, 2011 HK\$
8.	Flat 101 of Entrance 2 of Block 27 Beiyuan Local Community Haibin Street Dagang District Tianjin City the PRC	The property comprises a unit on Level 1 of a 5-storey residential building completed in about 1994. The property has a lettable area of approximately 56 sq.m. Pursuant to a Tenancy Agreement dated October 23, 2010, the property is leased to Jiangsu Xingyu Port Construction Company Limited (江蘇興宇港建有限公司), a wholly owned subsidiary of the Company, as lessee, from Ren De Quan (任德全), an independent third party, as lessor, for a term of 1 year commencing from October 23, 2010 and expiring on October 22, 2011 at a monthly rental of RMB1,600 exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for staff quarter purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. the lessor is the legal owner of the subject property and has the right to lease the property;
 - b. the usage of the leased property is in accordance to the PRC law;
 - c. the tenancy agreement is legal, valid and enforceable to both parties, the Company is entitled to use the property legally in the tenancy period; and
 - d. the tenancy agreement is still valid and effective despite the tenancy agreement has not been registered. It will not affect the legality of the Company to use the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at April 30, 2011 HK\$
9.	Flat 102 of Entrance 2 of Block 10 Chuangye Beili West District Dagang District Tianjin City the PRC	<p>The property comprises a unit on Level 1 of a 1-storey residential building completed in about 2001.</p> <p>The property has a lettable area of approximately 76 sq.m.</p> <p>Pursuant to a Tenancy Agreement dated October 16, 2010, the property is leased to Jiangsu Xingyu Port Construction Company Limited (江蘇興宇港建有限公司), a wholly owned subsidiary of the Company, as lessee, from Yue Qing Chun (岳慶春), an independent third party, as lessor, for a term of 1 year commencing from October 20, 2010 and expiring on October 19, 2011 at an annual rent of RMB23,160 exclusive of water and electricity charges.</p>	The property is currently occupied by the Group for staff quarter purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. the lessor is the legal owner of the subject property and has the right to lease the property;
 - b. the usage of the leased property is in accordance to the PRC law;
 - c. the tenancy agreement is legal, valid and enforceable to both parties, the Company is entitled to use the property legally in the tenancy period; and
 - d. the tenancy agreement is still valid and effective despite the tenancy agreement has not been registered. It will not affect the legality of the Company to use the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at April 30, 2011 HK\$
10.	Flat 101 of Entrance 2 of Block 20 Si Ji Hua Ting Local Community Xinghai Lane Tanghai County Tangshan City Hebei Province the PRC	<p>The property comprises a unit on Level 1 of a 5-storey residential building completed in about 2000s.</p> <p>The property has a lettable area of approximately 115 sq.m.</p> <p>Pursuant to a Tenancy Agreement dated March 3, 2011, the property is leased to Jiangsu Xingyu Port Construction Company Limited (江蘇興宇港建有限公司), a wholly owned subsidiary of the Company, as lessee, from Zhang Jingzhao (張景兆), an independent third party, as lessor, for a term of 1 year commencing from March 4, 2011 and expiring on March 3, 2012 at an annual rent of RMB18,500 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for staff quarter purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. the Lessor is the legal owner of the subject property and has right to lease the property;
 - b. the usage of the leased property is in accordance to the PRC laws;
 - c. the tenancy agreement is legal, valid and enforceable to both parties, the Company is entitled to use the property legally in the tenancy period; and
 - d. the tenancy agreement is still valid and effective despite the tenancy agreement has not been registered. It will not affect the legality of the Company to use the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at April 30, 2011 HK\$
11.	Flats 301 and 401 of Entrance 3 of Block 11 District A Jin Hai Ming Zhu Dalian City Liaoning Province the PRC	<p>The property comprises a unit on Level 3 and 4 of a 5-storey residential building completed in about 2006.</p> <p>The property has a total lettable area of approximately 171.44 sq.m.</p> <p>Pursuant to a Tenancy Agreement dated April 20, 2011, the property is leased to Jiangsu Xingyu Port Construction Company Limited (江蘇興宇港建有限公司), a wholly owned subsidiary of the Company, as lessee, from Wang Quan (王全), an independent third party, as lessor, for a term of 1 year commencing from April 30, 2011 and expiring on October 30, 2011 at a one lump sum rental of RMB16,200 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for staff quarter purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. The lessor has not provided ownership title documents and registration documents. We cannot ascertain the legitimacy of ownership of the lessor. If the lessor has no right to lease the property, the agreement made between both parties would be invalid, the lessee may have a risk be vacated from the premises.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at April 30, 2011
12.	Flat 201 of Entrance 3 of Block 11 District A Jin Hai Ming Zhu Dalian City Liaoning Province the PRC	<p>The property comprises a unit on Level 2 of a 5-storey residential building completed in about 2006.</p> <p>The property has a lettable area of approximately 85.72 sq.m.</p> <p>Pursuant to a Tenancy Agreement dated April 20, 2011, the property is leased to Jiangsu Xingyu Port Construction Company Limited (江蘇興宇港建有限公司), a wholly owned subsidiary of the Company, as lessee, from Tang Qin Feng (唐欽峰), an independent third party, as lessor, for a term of 1 year commencing from April 30, 2011 and expiring on October 30, 2011 at a one lump sum rental of RMB9,000 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for staff quarter purpose.	<p>HK\$</p> <p>No commercial value</p>

Note:

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. The lessor has not provided ownership title documents and registration documents. We cannot ascertain the legitimacy of ownership of the lessor. If the lessor has no right to lease the property, the agreement made between both parties would be invalid, the lessee may have a risk be vacated from the premises.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at April 30, 2011 HK\$
13.	Flat 1-201 of Entrance 3 of Block 18 Jin Hai Ming Zhu Dalian City Liaoning Province the PRC	<p>The property comprises a unit on Level 2 of a 5-storey residential building completed in about 2006.</p> <p>The property has a lettable area of approximately 90 sq.m.</p> <p>Pursuant to a Tenancy Agreement dated March 15, 2011, the property is leased to Jiangsu Xingyu Port Construction Company Limited (江蘇興宇港建有限公司), a wholly owned subsidiary of the Company, as lessee, from Miao Liang (苗良), an independent third party, as lessor, for a term of 1 year commencing from March 15, 2011 and expiring on March 14, 2012 at a monthly rental of RMB1,200 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for staff quarter purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. The lessor has not provided ownership title documents and registration documents. We cannot ascertain the legitimacy of ownership of the lessor. If the lessor has no right to lease the property, the agreement made between both parties would be invalid, the lessee may have a risk be vacated from the premises.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at April 30, 2011 HK\$
14.	Flat 6-602 of Entrance 2 of Block 16 Jin Hai Ming Zhu Dalian City Liaoning Province the PRC	<p>The property comprises a unit on Level 6 of a 11-storey residential building completed in about 2008.</p> <p>The property has a lettable area of approximately 90 sq.m.</p> <p>Pursuant to a Tenancy Agreement dated February 16, 2011, the property is leased to Jiangsu Xingyu Port Construction Company Limited (江蘇興宇港建有限公司), a wholly owned subsidiary of the Company, as lessee, from Hu Ming (胡明) and Yang Wei (楊威), independent third parties, as lessor, for a term commencing from February 16, 2011 and expiring on February 15, 2012 at a monthly rental of RMB1,200 exclusive of water and electricity charges.</p>	The property is currently occupied by the Group for staff quarter purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisors, which contains, *inter alia*, the following:
 - a. The lessor has not provided ownership title documents and registration documents. We cannot ascertain the legitimacy of ownership of the lessor. If the lessor has no right to lease the property, the agreement made between both parties would be invalid, the lessee may have a risk be vacated from the premises.

CAYMAN ISLANDS TAXATION

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands.

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

PRC TAXATION

Please refer to the section headed “Regulatory Overview — Tax Laws and Regulations” in this prospectus for details.

HONG KONG TAXATION**Dividends**

Under the current practice of the Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are arising in or derived from Hong Kong, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 16.5% and on unincorporated businesses at a rate of 15.0%. Gains from sales of the Shares effected on the Stock Exchange will be considered to be sourced in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of Shares effected on the Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of Shares registered on the Hong Kong branch register. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of Shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK\$5.00. Where a sale or purchase of Shares registered on the Hong Kong branch register is effected by a person who is not resident in Hong Kong and any stamp duty payable on the contract note is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon and the transferee shall be liable to pay such duty.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose death occur on or after February 11, 2006.

Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

1. MEMORANDUM OF ASSOCIATION

The memorandum of association provides that the Company's objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents available for inspection" specified in Appendix VIII to this Prospectus. As an exempted company, the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

2. ARTICLES OF ASSOCIATION

The articles of association of the Company (the "**Articles**") were adopted on May 24, 2011. The following is a summary of certain provisions of the Articles.

(a) Directors

(i) *Power to allot and issue shares*

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or relevant statutes of the Cayman Islands to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and the giving of security for loans to Directors*

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of the Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

(v) *Financial assistance to purchase shares of the Company or its holdings company*

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarized in paragraph 4(b) below.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other

company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his associate(s) is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director or his associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of the Company;
- (bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any company in which the Company has an interest for which the Director or his associate(s) has himself/themselves guaranteed or secured in whole or in part;
- (cc) any contract or arrangement by a Director or his associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director and his associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;

- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;
 - (ee) any contract or arrangement in which the Director or his associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
 - (ff) any contract or arrangement concerning any company in which he or his associate(s) is/are interested directly or indirectly whether as an officer or an executive or a member, other than a company in which the Director or his associates owns five per cent. or more of the voting equity capital or voting rights of any class of shares of such company (or of any third company through which his interest is derived), excluding shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights, and excluding shares held directly or indirectly through the Company;
 - (gg) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his associate(s) and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to Directors, associate(s) of Directors and employees of the Company or any of its subsidiaries and does not give the Director or his associate(s) any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;
 - (hh) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or his associate(s) may benefit; and
 - (ii) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his associate(s), officer or employee pursuant to the Articles.
- (vii) *Remuneration*

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided

amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all traveling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of traveling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those

who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). Subject to the statutes and the provisions of the Articles, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

(ix) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: The provisions summarized above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

(x) *Qualification shares*

Directors of the Company are not required under the Articles to hold any qualification shares.

(xi) *Indemnity to Directors*

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

(b) Alterations to constitutive documents

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of the Company.

(c) Alterations of capital

The Company may from time to time by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;

- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so canceled;
- (v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub divided may determine that, as between the holders of the shares resulting from such sub division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;
- (vi) change the currency of denomination of its share capital; and
- (vii) make provision for the issue and allotment of shares which do not carry any voting rights.

The Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorized and subject to any conditions prescribed by law. The Company may apply its share premium account in any manner permitted by law.

(d) Variation of rights of existing shares or classes of shares

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

(e) Special resolutions majority required

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, a special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorized representatives, or by proxy, at a general meeting of which notice of not less than 21 clear days' and not less than ten (10) clear business days, specifying the intention to propose the resolution as a special resolution, has been duly given. However, at all times while any part of the issued capital of the Company remains listed on the Stock Exchange, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving

that right, (or, in the case of an annual general meeting, by all members) a resolution may be proposed and passed as a special resolution at a meeting of which notice of not less than 21 clear days' and not less than ten (10) clear business days has been given.

(f) Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or installments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing Rules (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorize such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorization shall specify the number and class of shares in respect of which each such representative is so authorized. Each person so authorized under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorization.

(g) Requirements for annual general meetings

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

(h) Accounts and audit

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by law or are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorized by the Directors or by the Company in general meeting.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Companies Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law and instead of such copies, a summary financial statement derived from the Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon. If all or any of the shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

Auditors shall be appointed and their duties regulated in accordance with the Articles. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

(i) Notices of meetings and business to be conducted thereat

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by notice of not less than twenty one (21) clear days and not less than ten (10) clear business days. All other

extraordinary general meetings may be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice shall specify the place, the day and the hour of meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of that business.

(j) Transfer of shares

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in the Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favor of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognize an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

(l) Power of any subsidiary to own securities in the Company

There are no provisions in the Articles relating to ownership of securities in the Company by a subsidiary.

(m) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realization of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy. Proxies need not be members of the Company.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

(o) Corporate representatives

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

(p) Calls on shares and forfeiture of shares

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money

uncalled and unpaid or installments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent. per annum as the Directors may decide.

If a member fails to pay any call or installment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or installment remains unpaid, serve a notice on him requiring payment of so much of the call or installment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

(q) Inspection of register of members

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if the Company were incorporated under and is subject to the Companies Ordinance (Cap. 32) of the laws of Hong Kong.

(r) Inspection of register of Directors

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

(s) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one third in nominal value of the issued shares of that class and,

where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

(t) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands company law as summarized in paragraph 4(e) below.

(u) Procedures on liquidation

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

(v) Untraceable members

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on

which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

(w) Stock

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” and “member” therein shall include “stock” and “stockholder”.

(x) Other provisions

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION

Subject to the rights of the Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than 21 clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of not less than 21 clear days’ notice and not less than ten (10) clear

business days notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

4. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

- (i) in paying distributions or dividends to members;
- (ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (iii) in redeeming or purchasing its shares as provided in the Companies Law; or
- (iv) in writing off
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

(b) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorize the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorized by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. Purchases and redemptions may only be effected out of the profits of the company or the share premium account of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorized by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorized by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorized by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorized to do so in its articles of association.

(d) Dividends and distributions

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

(e) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

(f) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(g) Accounting and auditing requirements

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the

company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(h) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(i) Taxation

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Caymans Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

(j) Stamp duty

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an *ad valorem* basis.

(k) Inspection of corporate records

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

(I) Winding up

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles of association expires, or the event occurs on the occurrence of which the memorandum or articles of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents delivered to the Registrars of Companies" in Appendix VIII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on May 31, 2010.

Pursuant to a special resolution passed by the then sole Shareholder on June 18, 2010, we changed our name from “Power Wealth International Holdings Ltd.” into “Power Wealth International Holdings Limited 力富國際控股有限公司” on June 21, 2010. Pursuant to special resolution passed by the then sole Shareholder on October 28, 2010, we changed our name into “Xiangyu Port Construction Limited 翔宇港建有限公司” on November 3, 2010. We further changed our name into “Xiangyu Dredging Holdings Limited 翔宇疏浚控股有限公司” on February 8, 2011 upon approval by our then sole Shareholder by way of special resolution passed on January 28, 2011.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws and regulations of the Cayman Islands and our constitution which comprises a memorandum of association and the Articles. A summary of the relevant laws and regulations of the Cayman Islands and of our Company’s constitution is set out in Appendix VI to this prospectus.

2. Changes in share capital of our Company

As of the date of incorporation of our Company, the authorized share capital was HK\$200,000 divided into 2,000,000 Shares having a par value of HK\$0.10 each. On May 31, 2010, one subscriber Share was allotted and issued, nil paid, to Codan Trust Company (Cayman) Limited, which was transferred to Mr. Liu on the same date, and we further allotted and issued another 999,999 nil-paid Shares to Mr. Liu. The said 1,000,000 nil-paid Shares were subsequently credited as fully paid in the manner described in paragraph 4 headed “Group reorganization” below.

The authorized share capital of our Company was conditionally increased from HK\$200,000 to HK\$1,000 million by the creation of 9,998,000,000 new Shares which was approved pursuant to a resolution passed by the then sole Shareholder on April 19, 2011.

Immediately following the completion of the Global Offering and the Capitalization Issue (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), our authorized share capital will be HK\$1,000 million divided into 10,000,000,000 Shares, of which 800,000,000 Shares will be issued fully paid or credited as fully paid, and 9,200,000,000 Shares will remain unissued.

Other than pursuant to the exercise of the options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorized but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this paragraph, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of all Shareholders passed on May 24, 2011

Pursuant to resolutions in writing of all the Shareholders passed on May 24, 2011, the following resolutions, among other resolutions, were duly approved:

- (a) the Articles which came into effect on May 24, 2011 were approved and adopted;
- (b) conditional on all the conditions set out in “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus being fulfilled:
 - (i) the Global Offering was approved and our Directors were authorized to allot and issue the Offer Shares pursuant to the Global Offering, and to approve the transfer of the Shares held by the Selling Shareholder upon the exercise of the Over-allotment Option;
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” of this Appendix, were approved and adopted and our Directors were authorized to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;
 - (iii) conditional on the share premium account of our Company being credited as a result of the issue of new Shares under the Global Offering, our Directors were authorized to capitalize HK\$50 million standing to the credit of the share premium account of our Company by applying that sum in paying up in full at par 500,000,000 Shares for allotment and issue to the holders of Shares whose names appear on the register of members of our Company at the close of business on May 24, 2011 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in our Company and so that the Shares be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorized to give effect to such capitalization;
 - (iv) (1) subject to sub-paragraph (3) of this paragraph (iv), pursuant to the Listing Rules, the exercise by our Directors during the Relevant Period (as defined in paragraph (vi) of this resolution) to allot, issue and deal with unissued Shares in the capital of our Company and to make or grant offers, agreements and options which may require the exercise of such powers was generally and unconditionally approved;
 - (2) the approval in sub-paragraph (1) of this paragraph (iv) shall authorise our Directors during the Relevant Period to make or grant offers, agreements and options which may require the exercise of such powers after the expiry of the Relevant Period;

(3) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by our Directors pursuant to the approval in paragraph (1) of this paragraph (iv), otherwise than pursuant to (a) a Rights Issue (as defined below); or (b) any scrip dividend scheme or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association; or (c) the grant of options under the Share Option Scheme or the exercise of any options which have been or may be granted under the Share Option Scheme; or (d) any issue of Shares upon exercise of rights of subscription or conversion attaching to any warrants of our Company of any securities which are convertible into Shares; or (e) the Global Offering or the Capitalization Issue, shall not exceed the sum of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalization Issue, but excluding (where applicable) any Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme; and

(bb) (if our Directors are so authorised by a separate resolution of the Shareholders of our Company) the aggregate nominal amount of any share capital of our Company purchased by our Company subsequent to the passing of this resolution up to a maximum equivalent of 10 per cent. of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalization Issue, but excluding (where applicable) any Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme;

and the said approval shall be limited accordingly; and

(4) for the purposes of this paragraph (iv), “Rights Issue” means an offer of Shares in the capital of our Company or an offer or issue of warrants or options to subscribe for Shares in the capital of our Company open for a period fixed by our Directors to Shareholders of our Company whose names appear on our Company’s register of members on a fixed record date in proportion to their then holdings of Shares in our Company (subject to such exclusions or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in, or in any territory outside Hong Kong, or the expense or delay that may be incurred in the determination of any such restrictions or obligations);

(v) (1) subject to sub-paragraph (2) of this paragraph (v), the exercise by our Directors during the Relevant Period (as defined in paragraph (vi) of this resolution) of all the powers of our Company to purchase its Shares on the Stock Exchange or on

any other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose was generally and unconditionally approved;

- (2) the aggregate nominal amount of Shares in the capital of our Company which may be purchased or agreed to be purchased by our Company pursuant to the authority granted under sub-paragraph (1) of this paragraph (v) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of our Company in issue and to be issued immediately following completion of the Global Offering and the Capitalization Issue but excluding any Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme and the authority pursuant to sub-paragraph (1) of this paragraph (v) shall be limited accordingly;
- (vi) for the purposes of paragraphs (iv) and (v) of this resolution, “**Relevant Period**” means the period from the passing of this resolution until whichever is the earliest of:
- (1) the conclusion of the next annual general meeting of our Company;
 - (2) the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Law or any other applicable law to be held; and
 - (3) the passing of an ordinary resolution by Shareholders of our Company in general meeting revoking or varying the authority given to our Directors by paragraph (iv) or (v) (as the case may be) of this resolution.
- (vii) the general mandate granted to our Directors pursuant to paragraph (iv) above was extended by the addition to the aggregate nominal amount of the Shares which may be allotted, issued or dealt with by our Directors pursuant to or in accordance with such mandate of an amount representing the aggregate nominal amount of the Shares in the capital of our Company purchased by our Company pursuant to or in accordance with the authority granted under paragraph (v) above.

4. Group reorganization

The companies comprising our Group underwent the Reorganization to rationalize our Group’s structure in preparation for the listing of the Shares on the Stock Exchange and the Company became the holding company of the Group.

The Reorganisation involved the transfer on April 19, 2011 to the Company by Wangji Limited of an aggregate of 20,000 shares of US\$1.00 each in Power Wealth BVI (representing its entire issued share capital), the intermediate holding company of the Group, in consideration and in exchange for which the Company (i) allotted and issued, credited as fully paid, 99,000,000 Shares to Wangji Limited, and (ii) credited as fully paid at par the 1,000,000 nil-paid Shares then held by Wangji Limited.

In addition to the transfer of shares in Power Wealth BVI referred to above, the Group also underwent the following corporate restructuring:

- (a) on May 31, 2010, our Company was incorporated in the Cayman Islands as an exempted company under the Companies Law with an authorized share capital of HK\$200,000 divided into 2,000,000 shares having a par value of HK\$0.10 each. On May 31, 2010, one subscriber share having a par value of HK\$0.10 was transferred by its subscriber to Mr. Liu at nil consideration and an aggregate of 999,999 nil-paid Shares were allotted and issued by us to Mr. Liu;
- (b) on June 11, 2010, Xiangyu PRC was established as a wholly foreign-owned enterprise in the PRC with Power Wealth HK being its sole equity-holder. The total investment amount and the registered capital of Xiangyu PRC on its establishment were US\$2,000,000 and US\$2,000,000 respectively, and were subsequently approved to be increased to US\$29 million and US\$15 million on July 14, 2010 respectively;
- (c) on May 17, 2010, Power Wealth BVI was incorporated in BVI, and its authorized share capital was US\$50,000 divided into 50,000 shares having a par value of US\$1.00 each. On June 18, 2010, Power Wealth BVI allotted and issued one share to Mr. Liu;
- (d) on June 30, 2010, Power Wealth BVI acquired from Mr. Liu an aggregate of 100,000 shares having a par value of HK\$1 each in Power Wealth HK, representing its entire issued share capital, in consideration of and in exchange for which Power Wealth BVI allotted and issued, credited as fully paid, an aggregate of 9,999 new shares having a par value of US\$1.00 each in its share capital to Mr. Liu;
- (e) on August 18, 2010, (i) Mr. Liu transferred the entire issued share capital of our Company (being 1,000,000 nil-paid Shares) to Wangji Limited in consideration of which one share having a par value of US\$1.00 was allotted and issued by Wangji Limited to Mr. Liu and (ii) Mr. Liu transferred the entire issued share capital of Power Wealth BVI (being 10,000 shares having a par value of US\$1.00 each) to Wangji Limited in consideration of which 99 shares having a par value of US\$1.00 each were allotted and issued by Wangji Limited to Mr. Liu;
- (f) on September 18, 2010, Wangji Limited injected HK\$200 million to apply for 10,000 shares having a par value of US\$1.00 each in Power Wealth BVI. Immediately following such allotment of 10,000 shares, Power Wealth BVI had 20,000 shares having a par value of US\$1.00 each in issue, all of which were owned by Wangji Limited; and
- (g) on April 19, 2011, all the agreements constituting the Contractual Arrangements were entered into between Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou (as the case may be).

5. Changes in share capital of our subsidiaries

Our subsidiaries are listed in the accountants' report set out in Appendix I to this prospectus.

Save for the alterations disclosed in the section headed "History, Reorganization and Corporate Structure" of this prospectus, there is no other alteration in the share capital or registered share capital of our subsidiaries which took place within the two years immediately preceding the date of this prospectus.

6. Further information about our Group's PRC establishments

Our Group has interest in the registered capital of Xiangyu PRC established in the PRC. Further, the PRC Operational Entity is accounted for as subsidiary of our Company by way of the Contractual Arrangements. A summary of the corporate information of these enterprises as at the Latest Practicable Date is set out as follows:

Xiangyu PRC

- | | |
|--|--|
| (i) Name of the enterprise: | 江蘇翔宇港建工程管理有限公司
(Jiangsu Xiangyu Port Constructing Project Administration Co., Ltd.*) |
| (ii) Economic nature: | Wholly foreign-owned enterprise |
| (iii) Registered holder: | Power Wealth HK |
| (iv) Total investment: | US\$29 million |
| (v) Registered capital: | US\$15 million (fully paid-up) |
| (vi) Attributable interest to our Group: | 100% |
| (vii) Term of operation: | From June 11, 2010 to June 10, 2030 |
| (viii) Scope of business: | Port construction project management services, dredging project management services, municipal project management services, project management consulting services, enterprises management consulting services, project design consulting services, investment consulting services (except for those being subject to specific State regulations), engineering information consulting services |

PRC Operational Entity

- (i) Name of the enterprise: 江蘇興宇港建有限公司
(Jiangsu Xingyu Port Construction Company Limited*)
- (ii) Economic nature: PRC limited company
- (iii) Registered holders: Mr. Liu (98.47%) and Ms. Zhou (1.53%)
- (iv) Registered capital: RMB39,315,800 (fully paid-up)
- (v) Attributable interest to our Group: 100%
- (vi) Term of operation: Indefinite from July 13, 2007
- (vii) Scope of business: Design and construction for engineering works concerning ports, waterways, and municipal projects, and engineering works for buildings and related structures; import and export of different types of commodities and technologies owned by itself or as agent (except for commodities and technologies which have to be operated by permitted enterprises or which are prohibited by the State to be imported or exported)

7. Repurchase by our Company of our own securities

This paragraph includes information relating to the repurchase by us of our Shares, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Relevant legal and regulatory requirements in Hong Kong

The Listing Rules permit shareholders to grant a general mandate to the directors of a company to repurchase shares of such company that are listed on the Stock Exchange. Such mandate is required to be given by way of an ordinary resolution passed by shareholders in general meeting.

(b) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by all Shareholders on May 24, 2011, the Repurchase Mandate was given to our Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the

Capitalization Issue but excluding any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(c) *Source of funds*

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by us may be made out of our profits or our share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorized by the Articles and subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be repurchased must be provided for out of our profits or from sums standing to the credit of our share premium account or, if authorized by the Articles and subject to the Companies Law, out of capital.

(d) *Status of repurchased shares*

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those Shares must be cancelled and destroyed. Under Cayman Islands law, a company's repurchased shares may be treated as cancelled and the amount of the company's issued share capital will be reduced by the aggregate par value of the repurchased shares accordingly although the authorized share capital of the company will not be reduced.

(e) *Suspension of repurchase*

Pursuant to the Listing Rules, our Company may not make any repurchase of Shares on the Stock Exchange at any time after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, quarter or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of the Shares on the Stock Exchange if our Company has breached the Listing Rules.

(f) *Procedural and reporting requirements*

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which our Company makes a purchase of Shares, such report shall contain the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases, where relevant. Our Company shall also confirm that the purchase(s) which was/were made on the Stock Exchange were made in accordance with the Listing Rules and if our Company's primary listing is on the Stock Exchange, that there have been no material changes to the particulars contained in the explanatory statement as set out in this paragraph 7 (or to be sent by our Company to its Shareholders from time to time in compliance with Rule 10.06(1)(b) of the Listing Rules). In addition, our Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly breakdown of the number of Shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate price paid by our Company for such purchases. The Directors' report contained in the annual report shall also contain reference to the purchases made during the year and our Directors' reasons for making such purchases.

(g) *Connected parties*

Our Company is prohibited from knowingly repurchasing Shares on the Stock Exchange from a "connected person" (as defined in the Listing Rules) and a connected person may not knowingly sell his securities to our Company on the Stock Exchange.

(h) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and the Shareholders.

(i) *Funding of repurchases*

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, on the basis of 800,000,000 Shares in issue immediately after the Listing (assuming that any options that may be granted under the Share Option Scheme are not exercised at all), would result in up to 80,000,000 Shares being repurchased by us during the period in which the Repurchase Mandate remains in force.

(j) *General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person of our Company has notified us that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

8. Registration under Part XI of the Companies Ordinance

Our Company has established our head office and a principal place of business in Hong Kong for the purpose of registration under Part XI of the Companies Ordinance at Office 19, 36th Floor, China Merchants Tower, Shun Tak Centre, No. 168–200 Connaught Road Central, Hong Kong. Our Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance. Ms. Elsie Wong, the company secretary of our Company has been appointed as agent of our Company for the acceptance of service of process in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

9. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a deed of guarantee and share charge dated as of September 7, 2010 and executed by Mr. Liu, Wangji Limited and Power Wealth BVI in favour of Hong Jun for purpose of creating collaterals over, among other companies, the entire issued share capital in each of the Company, Power Wealth BVI and Power Wealth HK for securing the performance of payment and other obligations of Wangji Limited under the HJ Pre-IPO Note Purchase Agreement and the HJ Pre-IPO Warrant Agreement, brief details of which are set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”;
- (b) a share pledge (in Chinese) dated as of September 7, 2010 and executed by Power Wealth HK in favour of Hong Jun for purpose of creating collaterals over the entire registered capital in Xiangyu PRC for securing the performance of payment and other obligations of Wangji Limited under the HJ Pre-IPO Note Purchase Agreement and the HJ Pre-IPO Warrant Agreement, brief details of which are set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”;
- (c) a deed of partial release relating to the HJ Pre-IPO Note Purchase Agreement dated as of October 4, 2010 by and among Mr. Liu, Wangji Limited, Power Wealth BVI and Hong Jun, pursuant to which 40% of the collaterals created by the deed of guarantee and share charge (as mentioned in item (a) above of this paragraph 9) over, among other companies, the issued share capital in each of the Company, Power Wealth BVI and Power Wealth HK were released by Hong Jun and reassigned to the respective pledgors;
- (d) a deed of partial release (in Chinese) (relating to the pledge created by the share pledge as mentioned in item (b) above of this paragraph 9 over the registered capital of Xiangyu PRC) dated as of October 4, 2010 and executed by Power Wealth HK and Hong Jun, pursuant to which 40% of the pledge over the registered capital of Xiangyu PRC was released by Hong Jun and reassigned to Power Wealth HK;
- (e) a deed of guarantee and share charge dated as of October 4, 2010 by and among Mr. Liu, Wangji Limited and Power Wealth BVI in favour of Apex Ally for the purpose of creating collaterals over, among other companies, 40% of the issued share capital in each of the Company, Power Wealth BVI and Power Wealth HK for securing the performance of payment and other obligations of Wangji Limited under the AA Pre-IPO Note Purchase Agreement and the AA Pre-IPO Warrant Agreement, brief details of which are set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”;
- (f) a share pledge (in Chinese) dated as of October 4, 2010 and executed by Power Wealth HK in favour of Apex Ally for purpose of creating collaterals over 40% of the registered capital in Xiangyu PRC for securing the performance of payment and other obligations of Wangji

Limited under the AA Pre-IPO Note Purchase Agreement and the AA Pre-IPO Warrant Agreement, brief details of which are set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”;







- (g) a ship mortgage contract (in Chinese) dated December 31, 2010 and executed by Xiangyu PRC in favour of Hong Jun and Apex Ally for purpose of creating collaterals over the ownership of the two dredgers (namely Kaijin No. 1 and Kaijin No. 3) held by Xiangyu PRC (*i.e.*, 50% interests in each of such dredgers) for securing the performance of payment and other obligations of Wangji Limited under the HJ Pre-IPO Note Purchase Agreement, the AA Pre-IPO Note Purchase Agreement, the HJ Pre-IPO Warrant Agreement and the AA Pre-IPO Warrant Agreement, brief details of which are set out in the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments”;
- (h) a supplemental agreement dated March 1, 2011 and entered into between Wangji Limited, Mr. Liu, Power Wealth BVI, Power Wealth HK, Xiangyu PRC and Apex Ally for the purpose of amending and supplementing certain terms of the AA Pre-IPO Note Purchase Agreement and related transaction documents concerning (among other matters) the time of discharge of the share pledge created over the equity interest in Xiangyu PRC and the procedure in the exercise of the Pre-IPO Warrants;
- (i) a supplemental agreement dated March 3, 2011 and entered into between Wangji Limited, Mr. Liu, Power Wealth BVI, Power Wealth HK, Xiangyu PRC and Hong Jun of amending and supplementing certain terms of the HJ Pre-IPO Note Purchase Agreement and related transaction documents concerning (among other matters) the time of discharge of the share pledge created over the equity interest in Xiangyu PRC and the procedure in the exercise of the Pre-IPO Warrants;
- (j) the Composite Services Agreement (in Chinese) dated April 19, 2011 and entered into between Xiangyu PRC and the PRC Operational Entity pursuant to which the PRC Operational Entity has agreed to engage Xiangyu PRC on an exclusive basis to provide enterprise management and consultancy services, dredging project management and consultancy and other related services and in return, Xiangyu PRC will charge for such services rendered on the basis of the total audited revenue of the PRC Operational Entity, after deducting all the related costs of sales, expenses, taxes and statutory reserve as audited by such certified public accountants of the PRC, and the duration of such Composite Services Agreements and other terms stated in the section headed “Business — Contractual Arrangements — Composite Services Agreement”;
- (k) the Option Agreement (in Chinese) dated April 19, 2011 and entered into by and among Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou whereby Xiangyu PRC has been granted option to acquire, directly or through one or more nominees, the entire equity interest in the PRC Operational Entity held by Mr. Liu and Ms. Zhou at a price equivalent to the fair market value of such equity interest or, where applicable, the minimum amount as may be permitted by the applicable PRC laws, while Xiangyu PRC may exercise such option at any time and in any manner at its sole discretion subject to compliance with the PRC laws, and other rights as summarized in the section headed “Business — Contractual Arrangements — Option Agreement” of this prospectus;

- (l) the Proxy Agreement (in Chinese) dated April 19, 2011 and entered into between Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou, pursuant to which Mr. Liu and Ms. Zhou have unconditionally and irrevocably undertaken to authorize such person(s) as designated by Xiangyu PRC to exercise the shareholders' rights in relation to appointment of proxy and exercise of voting rights in the PRC Operational Entity, and other rights conferred under such agreement, which are briefly summarized in the section headed "Business — Contractual Arrangements — Proxy Agreement" of this prospectus;
- (m) the Equity Pledge Agreement (in Chinese) dated April 19, 2011 and entered into by and among Xiangyu PRC, the PRC Operational Entity, Mr. Liu and Ms. Zhou whereby Mr. Liu and Ms. Zhou granted, among other rights, continuing first priority security interests over their respective equity interests in the PRC Operational Entity to Xiangyu PRC for securing, among other matters, the performance of the Composite Services Agreement, the Option Agreement and the Proxy Agreement, whose terms are briefly summarized in the section headed "Business — Contractual Arrangements — Equity Pledge Agreement" of this prospectus;
- (n) three several Vessel Pledge Agreements (in Chinese) all dated April 19, 2011 and entered into between the PRC Operational Entity and Xiangyu PRC, pursuant to which the PRC Operational Entity has pledged in favor of Xiangyu PRC (i) its entire interest in the dredger "Zhuayang No. 101"; (ii) its 50% interest in the dredger "Kaijin No. 1" and (iii) its 50% interest in the dredger "Kaijin No. 3", as security for the due payment of the consultation service fees and repayment of the surety money then owing by the PRC Operational Entity to Xiangyu PRC under the Composite Services Agreement. Brief terms of such agreements are summarized in the section headed "Business — Contractual Arrangements — Vessel Pledge Agreements" of this prospectus;
- (o) a share purchase agreement dated April 19, 2011 and entered into between Wangji Limited as vendor, Mr. Liu as warrantor and our Company as purchaser, pursuant to which our Company acquired the entire issued share capital of Power Wealth BVI in consideration of and in exchange for which our Company (i) allotted and issued, credited as fully paid, an aggregate of 99 million Shares to Wangji Limited; and (ii) credited as fully paid at par the 1,000,000 nil-paid Shares then held by Wangji Limited, which agreement also contains certain non-compete undertakings given by Wangji Limited and Mr. Liu in favour of the Company;
- (p) a deed of non-competition dated May 24, 2011 and executed by our Controlling Shareholders in favor of our Company (for the Company and for the benefit of its subsidiaries stated therein) containing certain non-compete undertakings more particularly referred to in the paragraph headed "Non-competition undertakings and confirmation" in the section headed "Relationship with Controlling Shareholders" of this prospectus;
- (q) a deed of indemnity dated May 24, 2011 and executed by our Controlling Shareholders in favor of our Company (for the Company and as trustee for its subsidiaries stated therein) containing the indemnities more particularly referred to in the paragraph headed "Estate duty, tax and other indemnities" of this Appendix; and
- (r) the Hong Kong Underwriting Agreement.



10. Intellectual property rights of our Group

Trademarks(a) *Trademarks*

As at the Latest Practicable Date, our Group was the registered owner of the following trademarks:





No.	Trademark	Place of registration	Class	Validity period	Registration number(s)
1.	   	Hong Kong	37	From September 2, 2010 to September 1, 2020	301705022
2.	 	Hong Kong	37	From October 21, 2010 to October 20, 2020	301742661

As at the Latest Practicable Date, we made applications for registration of the following trademarks, the registration of each of which has not yet been granted:

No.	Trademark	Place of application	Class	Date of application	Application number
1.	翔宇港建 Xiangyu Port Construction	Hong Kong	37	October 27, 2010	301747134
2.	翔宇疏浚 Xiangyu Dredging	Hong Kong	37	February 1, 2011	301825687
3.	力富國際 POWER WEALTH	PRC	37	September 1, 2010	8627661
4.		PRC	37	September 1, 2010	8627662
		PRC	35, 36, 42	February 14, 2011	9119662, 9119661, 9119660
5.		PRC	35, 36, 37, 42	October 25, 2010	8772180, 8772179, 8772178, 8772177
6.	翔宇港建 Xiangyu Port Construction	PRC	35, 36, 37, 42	October 25, 2010	8772176, 8772175, 8772174, 8772173
7.	翔宇疏浚 Xiangyu Dredging	PRC	35, 36, 37, 42	February 14, 2011	9119666, 9119665, 9119664, 9119663

As at the Latest Practicable Date, our Group had the following copyright recordation:

(b) *Copyright*

<u>No.</u>	<u>Copyright</u>	<u>Place of recordation</u>	<u>Date of certification</u>	<u>Recordation number</u>
1.	 力富國際 POWER WEALTH	PRC	December 8, 2010	2010-F-031775
2.	 翔宇港建 Xiangyu Port Construction	PRC	December 28, 2010	2010-F-034107
3.	 翔宇港建 Xiangyu Port Construction	PRC	January 4, 2011	2011-F-034880
4.	 翔宇疏浚 Xiangyu Dredging	PRC	April 26, 2011	2011-F-039051

Domain name

As at the Latest Practicable Date, we had registered the following domain name in Hong Kong:

<u>Domain name</u>	<u>Expiry date</u>	<u>Registered owner</u>
POWERWEALTH.COM.HK	April 30, 2012	Power Wealth Engineering Limited
XIANGYU.COM.HK	October 22, 2011	Power Wealth Engineering Limited

As at the Latest Practicable Date, except as disclosed in this prospectus, there were no trademarks, patents or other intellectual property rights which were material to the business of our Company.

11. Connected transactions and related party transactions

Save as disclosed in the section headed “Connected Transactions” of this prospectus and in note 24 to our consolidated financial statement included in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, we have not engaged in any other material connected transactions or related party transactions.

FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS

12. Directors

(a) *Disclosure of interests of Directors*

- (i) Each of Mr. Liu and Mr. Dong is interested in the Reorganization.
- (ii) Save as disclosed in this prospectus, none of our Directors or their associates were engaged in any dealings with our Group during the two years preceding the date of this prospectus.

(b) *Particulars of Directors' service contracts**Executive Directors*

Each of our executive Directors has entered into a service contract with our Company pursuant to which he/she agreed to act as an executive Director for an initial term of three years with effect from June 1, 2011.

Each of our executive Directors is entitled to a basic salary as set out below (subject to an annual increment after December 31, 2011 at the discretion of our Directors (or its duly delegated committee) of not more than 10% of the annual salary immediately prior to such increase). In addition, each of the executive Directors is also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of our Company may not exceed 10% of the audited combined or audited consolidated net profit of our Group (after taxation and minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of our Company. An executive Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him/her. The current basic annual salaries and housing allowances in aggregate of our executive Directors, pursuant to their respective service contracts with our Company are as follows:

Name	Annual salary (RMB)
Mr. Liu	3,960,000
Ms. Zhou	1,800,000

Non-executive Director and independent non-executive Directors

Each of our non-executive Director and our independent non-executive Directors has been appointed for an initial term of three years commencing from June 1, 2011. Our non-executive Director, Mr. Dong is entitled to a director's fee of RMB2,400,000 per annum and our independent non-executive Directors namely, Ms. Leung Mei Han, Mr. Zhang Jun and Ms. Peng Cuihong are entitled to a director's fee of RMB200,000, RMB150,000 and RMB150,000 per annum respectively. Save for directors' fees, none of our non-executive

Director or independent non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director or an independent non-executive Director.

Save as disclosed aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(c) *Remuneration of Directors*

- (i) The aggregate emoluments (including fee, salaries, contributions to pension scheme, housing allowances and other allowances) paid and benefits in kind granted by our Group to our Directors in respect of the three financial years ended December 31, 2008, 2009 and 2010 were approximately RMB94,000, RMB92,000 and RMB951,000 respectively.
- (ii) Under the arrangements currently in force, the aggregate emoluments (including fee, salaries, contributions to pension scheme, housing allowances and other allowances but excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our independent non-executive Directors) for the year ending December 31, 2011, are expected to be approximately RMB5.1 million.
- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended December 31, 2010 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended December 31, 2010.

(d) *Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations*

Immediately following completion of the Global Offering and the Capitalization Issue and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or Shares which may be sold by our Selling Shareholder upon the exercise of the Over-allotment Option, the interests or short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are

taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to notify our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

<u>Name of Director</u>	<u>Name of Group member/associated corporation</u>	<u>Capacity/nature of interest</u>	<u>Number and class of securities (Note 1)</u>	<u>Approximate percentage of shareholding</u>
Mr. Liu (<i>Note 2</i>)	Our Company	Controlled corporation	325,100,000 Shares (L)	40.64%
Ms. Zhou (<i>Note 3</i>)	Our Company	Interest of spouse	325,100,000 Shares (L)	40.64%
Mr. Dong (<i>Note 4</i>)	Our Company	Controlled corporation	160,000,000 Shares (L)	20%

Notes:

- (1) The letter “L” denotes our Directors’ long position in the shares of our Company or the relevant associated corporation.
- (2) Mr. Liu is the sole legal and beneficial owner of Wangji Limited which is the direct owner of 325,100,000 Shares.
- (3) Ms. Zhou is the spouse of Mr. Liu and therefore, under the SFO, she is deemed to be interested in the Shares in which Mr. Liu is interested.
- (4) Mr. Dong is the sole legal and beneficial owner of Shen Wang Limited which is the direct owner of 160,000,000 Shares. Under the International Underwriting Agreement to be entered into, the Selling Shareholder will grant to the Sole Global Coordinator the Over-allotment Option, pursuant to which up to 30,000,000 Shares may be sold by the Selling Shareholder upon the exercise of such option.

<u>Name of Director</u>	<u>Name of Group member/associated corporation</u>	<u>Capacity/nature of interest</u>	<u>Approximate percentage of shareholding</u>
Mr. Liu (<i>Note 5</i>)	PRC Operational Entity	Beneficial Owner	100%
Ms. Zhou (<i>Note 5</i>)	PRC Operational Entity	Interest of spouse	100%

Note:

- (5) Mr. Liu and Ms. Zhou are the registered holders of 98.47% and 1.53% of the registered capital of the PRC Operational Entity respectively. As Ms. Zhou holds the said 1.53% equity interest in the PRC Operational Entity as trustee on behalf of Mr. Liu, Mr. Liu is the sole beneficial owner of the entire registered capital of the PRC Operational Entity. Ms. Zhou is the spouse of Mr. Liu and therefore, under the SFO, she is deemed to be interested in the entire registered capital of the PRC Operational Entity in which Mr. Liu is interested.

13. Interest discloseable under the SFO and substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalization Issue (but without taking into account of any Shares which may be taken up under the Global Offering, any Shares which may be allotted and issued upon the exercise of any options under the Share Option Scheme and/or any Shares which may be sold upon exercise of the Over-allotment Option), other than a Director or chief executive of our Company whose interests are

disclosed under the sub-paragraph headed “Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations” above, the following persons will have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and who will be expected, directly or indirectly, to be interested in 10% or more of the Shares:

Name	Number of Shares	Approximate percentage of shareholding
Wangji Limited	325,100,000	40.64%
Shen Wang Limited	160,000,000	20.00%
Yang Yingying (<i>Note 1</i>)	160,000,000	20.00%
Hong Jun Investment Limited (<i>Note 2</i>)	69,000,000	8.63%
Apex Ally Investments Limited (<i>Note 3</i>)	45,900,000	5.74%

Notes:

- (1) The said 160,000,000 Shares is held under the name of Shen Wang Limited, which is solely owned by Mr. Dong. Ms. Yang Yingying is the spouse of Mr. Dong and therefore, under the SFO, Ms. Yang is deemed to be interested in these Shares.
- (2) Hong Jun is a wholly owned subsidiary of CCB International Asset Management Limited, being a member of the China Construction Bank Corporation Limited.
- (3) Apex Ally is a wholly owned subsidiary of ICBC International Investment Management Limited, being member of ICBC International Holdings Limited, which is wholly owned by Industrial and Commercial Bank of China Limited.

In addition to the above and so far as our Directors are aware, immediately following completion of the Global Offering, the following person is directly or indirectly interested in 10% or more of the nominal value of any class of equity capital carrying rights to vote in all circumstances at general meetings of our subsidiaries:

Name of our subsidiary	Substantial shareholder of such subsidiary	Approximate percentage of shareholding
The PRC Operational Entity	Mr. Liu (<i>Note</i>)	100%
The PRC Operational Entity	Ms. Zhou (<i>Note</i>)	100%

Note: Mr. Liu and Ms. Zhou are the registered holders of 98.47% and 1.53% of the registered capital of the PRC Operational Entity respectively. As Ms. Zhou holds the said 1.53% equity interest in the PRC Operational Entity as trustee on behalf of Mr. Liu, Mr. Liu is the sole beneficial owner of the entire registered capital of the PRC Operational Entity. Ms. Zhou is the spouse of Mr. Liu and therefore, under the SFO, she is deemed to be interested in the entire registered capital of the PRC Operational Entity in which Mr. Liu is interested.

14. Disclaimers

Save as disclosed in this prospectus:

- (a) and taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Global Offering and the Capitalization Issue, have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of our Company or any other member of our Group;
- (b) none of our Directors nor any chief executive has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, in each case once the Shares are listed;
- (c) none of our Directors nor any of the parties listed in the paragraph 22 headed “Qualification of experts” has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the Offer Shares either in his/her own name or in the name of a nominee;
- (d) none of our Directors nor any of the parties listed in paragraph 22 headed “Qualification of experts” below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of us;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in paragraph 22 headed “Qualification of experts” below:
 - (i) is interested legally or beneficially in any securities of any member of our Group; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

- (f) save as referred to above, there are no existing or proposed service contracts (excluding contracts expiring or terminable by any member of our Group within one year without payment of compensation other than statutory compensations) between any member of our Group and our Directors;
- (g) none of the Directors or their associates or any Shareholder of our Company who to the knowledge of the Directors owns more than 5% of the issued share capital of our Company has any interest in the five largest suppliers, customers or subcontractors of our Company.

OTHER INFORMATION

15. Share Option Scheme

(a) *Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by all Shareholders on May 24, 2011:

(i) *Purposes of the scheme*

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to us. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable us to reward the employees, our Directors and other selected participants for their contributions to us. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to our development so as to bring about an increased market price of the Shares in order to capitalize on the benefits of the options granted.

(ii) *Who may join*

Our Directors (which expression shall, for the purpose of this paragraph 15, include a duly authorized committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (“**Eligible Employee(s)**”) (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity (the “**Invested Entity**”) in which our Group holds an equity interest;
- (bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;

- (cc) any supplier of goods or services to any member of our Group or any Invested Entity;
- (dd) any customer of our Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to our Group or any member of any Invested Entity;
- (ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of our Group or any Invested Entity; and
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of our Group,

and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who fall within any of the above classes of participants shall not, by itself, unless our Directors otherwise determined, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his contribution to the development and growth of our Group.

(iii) *Maximum number of Shares*

- (aa) The maximum number of Shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Group must not in aggregate exceed 30% of the issued share capital of our Company from time to time.
- (bb) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Group) to be granted under the Share Option Scheme and any other share option schemes of our Group must not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Main Board (the "**General Scheme Limit**").
- (cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share

options schemes of our Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the refreshed limit, options (including those outstanding, canceled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of our Group) previously granted under the Share Option Scheme and any other share option schemes of our Group will not be counted. The circular sent by our Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

- (dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) *Maximum entitlement of each participant*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Group (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being (the "**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of our Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) *Grant of options to connected persons*

- (aa) Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options).
- (bb) Where any grant of options to a substantial shareholder or an independent non-executive Director of our Company or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already

granted and to be granted (including options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by the Shareholders in general meeting. Our Company must send a circular to the Shareholders. All connected persons of our Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial Shareholder or an independent non-executive Director of our Company or any of their respective associates must be approved by the Shareholders in general meeting.

(vi) *Time of acceptance and exercise of option*

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) *Performance targets*

Unless our Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) *Subscription price for Shares and consideration for the option*

The subscription price for Shares under the Share Option Scheme will be a price determined by our Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) *Ranking of Shares*

- (aa) Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the “**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee on the register of members of our Company as the holder thereof.
- (bb) Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of our Company from time to time.

(x) *Restrictions on the time of grant of options*

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the meeting of our Directors (as such date is first notified to the Stock Exchange under the Listing Rules) for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the last date on which our Company must publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the announcement of the results, no option may be granted.

Our Directors may not grant any option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) *Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) *Rights on ceasing employment*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in subparagraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not.

(xiii) *Rights on death, ill-health or retirement*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation, which date shall be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(xiv) *Rights on dismissal*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of persistent or serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offense (other than an offense which in the opinion of our Directors does not bring the grantee or our Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

(xv) *Rights on breach of contract*

If (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and our Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse, his option will lapse automatically and will not in any event be exercisable on or after the date on which our Directors have at their absolute discretion so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavors to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to Shareholders, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes or the relevant record date for entitlements under the scheme of arrangement, as the case may be.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

- (i) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and

- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalization issue, rights issue, subdivision or consolidation of Shares or reduction of capital or any alteration in the capital structure of our Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares, the subject matter of the Share Option Scheme and the option so far as unexercised and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (iii) notwithstanding (i) above, any adjustments as a result of an issue of securities with a price-dilutive element, such as a rights issue, open offer or capitalization issue, should be based on a scrip factor similar to the one used in accounting standards in adjusting the earnings per share figures and any such adjustment shall comply with the supplementary guidance on Rule 17.03(13) of the Listing Rules as set out in the letter issued by the Stock Exchange dated September 5, 2005, but no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any made on a capitalization issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so canceled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the

Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) *Rights are personal to the grantee*

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) *Lapse of option*

An option (to the extent not already exercised) shall lapse automatically on the earliest of:

- (aa) the expiry of the period referred to in paragraph (vi); and
- (bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii).

(xxiv) *Others*

- (aa) The Share Option Scheme is conditional on the Listing Committee granting the listing of and permission to deal in, such number of Shares representing the General Scheme Limit to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.
- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the Shareholders in general meeting.

(b) *Present status of the Share Option Scheme*

(i) *Approval of the Listing Committee required*

The Share Option Scheme is conditional on the Listing Committee granting the listing of, and permission to deal in, such number of Shares to be issued, which is expected to be 80,000,000 Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) *Application for approval*

Application has been made to the Listing Committee for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) *Grant of option*

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) *Value of options*

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

16. Estate duty, tax and other indemnity

The Controlling Shareholders (together, the “**Indemnifiers**”) have entered into a deed of indemnity with and in favor of our Company (for itself and as trustee for each of our present subsidiaries) (being the material contract (q) referred to in paragraph 9 above) to provide indemnities on a joint and several basis in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group on or before the Listing; and
- (b) tax liabilities (including all fines, penalties, costs, charges, liabilities, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits or gains, earned, accrued or received on or before the Listing,

or any transactions, events, matters or things entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the deed of indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to December 31, 2010;
- (b) to the extent that such taxation or liability for such taxation falling on any of the members of our Group in respect of any accounting period commencing on January 1, 2011 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, otherwise than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after December 31, 2010; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before December 31, 2010 or pursuant to any statement of intention made in this prospectus; or
- (c) to the extent that such taxation liabilities or claim arises or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect; or
- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to December 31, 2010 and which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Pursuant to the deed of indemnity, the Indemnifiers have on a joint and several basis undertaken to indemnify each member of our Group, among other liabilities or potential liabilities, (a) any penalty which may be imposed on our Group, or any costs, expenses and losses which our Group may suffer in connection with such penalty, due to our Group's failure to observe laws, regulations or rules concerning social insurance contributions for the employees or any other laws and regulations in connection with the employee welfare and benefits in the PRC; (b) any penalty which may be imposed on our Group, or any costs, expenses and losses which our Group may suffer in connection with such penalty, due to our

Group's failure to duly make all relevant filings or reports and supply all other information required to be supplied to any relevant PRC governmental authority, including but not limited to the relevant tax bureau and relevant administration of industry and commerce, or to observe any laws, regulations or rules in the PRC in this regard; (c) any costs, claims, damages, expenses, losses, penalties, liabilities, actions and proceedings which our Group may suffer from not having obtained all relevant approvals, permits, licences and/or certificates for conducting its businesses, including but not limited to the non-compliances as disclosed in this prospectus; and (d) any costs, claims, damages, expenses, losses, penalties, liabilities, actions and proceedings arising from the relocation by our Group arising from or in connection with the lessors' lack of relevant title certificates or documents or the lessors' registration default in relation to the lease agreements to the extent that damages, if any, recovered from the relevant lessor are inadequate to cover the related costs of our Group.

Under the deed of indemnity, each of the Indemnifiers has also undertaken to us that he/it will indemnify and at all times keeps us fully indemnified, on a joint and several basis, from any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganization.

17. Litigation

Save as disclosed in this prospectus, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Group member, that would have a material adverse effect on our results of operations or financial condition of our Group.

18. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK\$45,000 and are payable by our Company.

19. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Within the two years preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to any promoters of our Company in connection with the Global Offering or the related transactions described in this prospectus.

The Hong Kong Underwriters shall receive a commission of 3.5% of the aggregate Offer Price of our Hong Kong Offer Shares underwritten by the Hong Kong Underwriters and the International Underwriters shall receive an underwriting commission of 3.5% of the aggregate of the Offer Price of our International Offer Shares underwritten by the International Underwriters, out of which they shall pay any sub-underwriting commissions.

The underwriting commission, financial advisory and documentation fees, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering, represent 13.1% of the proceeds from the Global

Offering assuming an Offer Price of HK\$3.63 (being the mid-point of Offer Price range between HK\$3.19 per Offer Share and HK\$4.07 per Offer Share), are estimated to amount to approximately HK\$95 million in total.

20. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of any option which may be granted under the Share Option Scheme, being 10% of the Shares in issue on the Listing Date, on the Stock Exchange. The Sole Sponsor is independent of our Company pursuant to Rule 3A.07 of the Listing Rules.

21. Shares will be eligible for CCASS

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Shares.

All necessary arrangements have been made enabling the Shares to be admitted into the CCASS, which is established and operated by the HKSCC.

22. Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualification
Morgan Stanley Asia Limited	Licensed corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) regulated activities
Deloitte Touche Tohmatsu	Certified Public Accountants
Conyers Dill & Pearman.	Cayman Islands barristers and attorneys
Zhong Lun Law Firm.	Qualified PRC lawyers
Commerce & Finance Law Offices.	Qualified PRC lawyers
Jones Lang LaSalle Sallmanns Limited.	Professional property valuer

23. Consents of experts

Each of the experts referred to in paragraph 22 headed “Qualification of experts” has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

24. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

25. Taxation of holders of Shares

Dealings in Shares registered on the Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasized that none of the Company, the Selling Shareholder, the Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

26. Miscellaneous

- (a) Save as disclosed in this prospectus:
 - (i) within two years preceding the date of this prospectus:
 - (aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and
 - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;

- (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (iii) no founder shares, management shares or deferred shares of our Company or any of its subsidiaries have been issued or agreed to be issued.
- (b) There has been no material adverse change in the financial or trading position or prospects of our Group since December 31, 2010 (being the date to which the latest audited combined financial statements of our Group were made up).
- (c) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.
- (d) none of our equity or debt securities is listed or dealt with on any stock exchange or trading system nor is any listing or permission to deal being or proposed to be sought.
- (e) we have no outstanding convertible securities or debentures.
- (f) Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in the Cayman Islands by Codan Trust Company (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, the Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

27. Dividends

There are no arrangement in existence under which future dividends are to be waived or agreed to be waived.

28. Brief details of the Selling Shareholder

The Selling Shareholder is Shen Wang Limited, whose sole director and sole shareholder is Mr. Dong Liyong. The Selling Shareholder is an investment-holding company incorporated on June 3, 2010 under the laws of the BVI with limited liability. The registered office of the Selling Shareholder is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI.

29. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses for Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the statement of particulars of the Selling Shareholder;
- (c) the written consents referred to in the sub-paragraph headed “Consents of experts” in the paragraph headed “Other information” in Appendix VII to this prospectus; and
- (d) copies of the material contracts referred to in the sub-paragraph headed “Summary of material contracts” in the paragraph headed “Further information about the business of our Company” in Appendix VII to this prospectus.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Chiu & Partners at 40th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including June 23, 2011:

- (a) the memorandum of association of the Company and the Articles;
- (b) the accountants’ report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (c) the letter prepared by Deloitte Touche Tohmatsu on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the letters relating to the profit forecast from Deloitte Touche Tohmatsu and the Sole Sponsor, the texts of which are set out in Appendix III to this prospectus;
- (e) the valuation report (including a letter, a summary of valuation and the valuation certificate) prepared by Jones Lang LaSalle Sallmanns Limited relating to the property interests of our Group, the texts of which are set out in Appendix IV to this prospectus;
- (f) the Companies Law;
- (g) the letter of advice prepared by Conyers Dill & Pearman summarizing certain aspects of Cayman Islands company law as referred to in Appendix VI to this prospectus;

- (h) the legal opinions prepared by the PRC Legal Advisers in respect of certain aspects of our Group and the property interests of our Group in the PRC;
- (i) the legal opinion prepared by Commerce & Finance Law Offices, as the PRC legal advisers to the Sole Sponsor in respect of certain aspects of our Group;
- (j) the material contracts referred to in the sub-paragraph headed “Summary of material contracts” under the paragraph headed “Further information about the business of our Company” in Appendix VII to this prospectus;
- (k) the service contracts referred to in the sub-paragraph headed “Particulars of Directors’ service contracts” under the paragraph headed “Further information about Directors and Shareholders ” in Appendix VII to this prospectus;
- (l) the rules of the Share Option Scheme;
- (m) the written consents referred to in the sub-paragraph headed “Consents of experts” under the paragraph headed “Other information” in Appendix VII to this prospectus; and
- (n) the statement of particulars of the Selling Shareholder including its name, address and description.



翔宇疏浚控股有限公司
XIANGYU DREDGING HOLDINGS LIMITED