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## RISK FACTORS

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*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

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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.

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**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

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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

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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

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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.

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**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

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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



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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.

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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.

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**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.

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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

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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.

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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

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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

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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



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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

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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.

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**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.

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**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.

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**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.

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**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

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## RISK FACTORS

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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.