

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.

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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.

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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

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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

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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.

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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

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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

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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.

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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

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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

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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.

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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

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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

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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 Contract Amount	Value of Work Completed by		Contract Period	Implementation Status	Customer
			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.

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- (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.

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.

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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

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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.

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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

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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.

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- 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.

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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.

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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.

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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.

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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.

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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 recordings 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.

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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.

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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

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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.