
CONTRACTUAL ARRANGEMENTS

OVERVIEW

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) Composite Services Agreement

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

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

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

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

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

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

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

(ii) Option Agreement

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

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

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

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

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

(iii) Proxy Agreement

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

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

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

(iv) Equity Pledge Agreement

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

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

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

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(v) Vessel Pledge Agreements

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

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

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

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

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

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

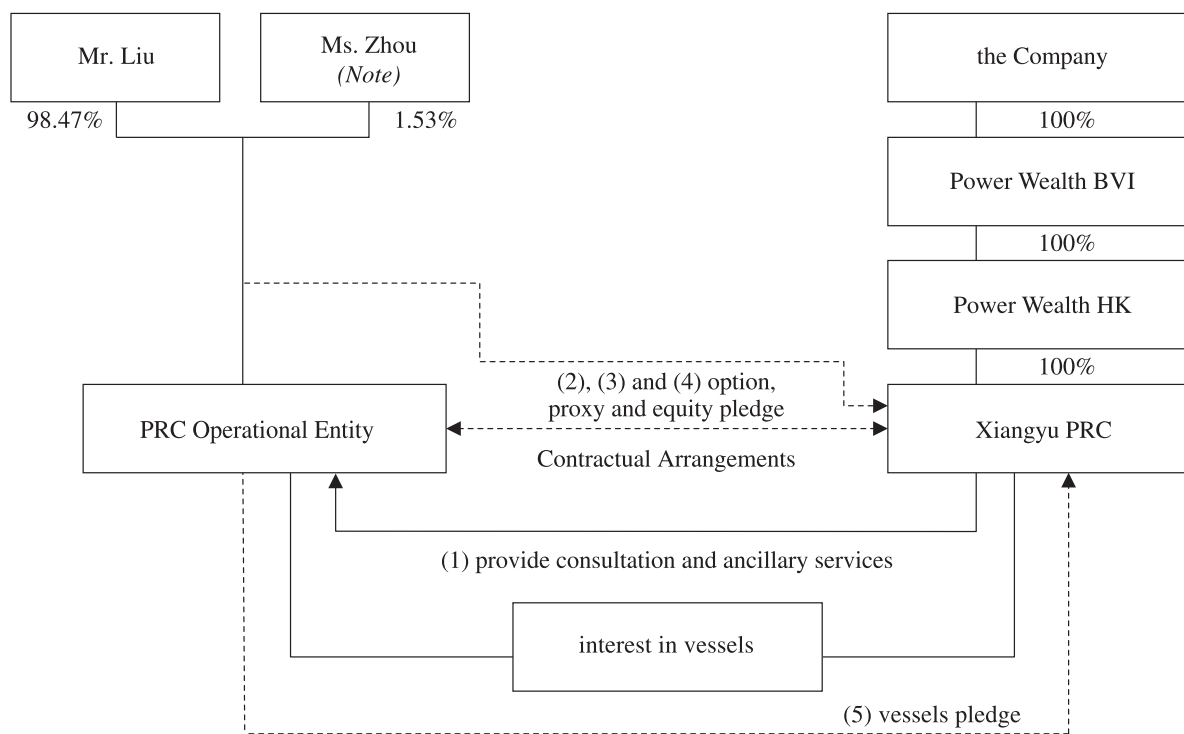
Our PRC Legal Advisers have advised us that after Listing, the applicable PRC laws currently in effect would not disqualify our Group from approaching and participating in dredging projects which forbid any involvement of foreign-invested companies so long as the PRC Operational Entity remains a PRC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

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

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

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



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

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

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

Provision of funds to the PRC Operational Entity

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

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

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

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

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

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

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

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

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

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

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

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

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

Conduct of operations in compliance with the Contractual Arrangements

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

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

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

Effect and Legality of the Contractual Arrangements

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

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

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

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

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

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

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

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

Bases of the PRC legal opinion

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

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

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