
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

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

INTEREST IN THE PRC OPERATIONAL ENTITY HELD BY MR. LIU

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

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

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

Business Independence

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

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

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

Management and Administrative Independence

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

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

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

Financial Independence

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

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

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

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

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

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

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

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

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

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

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

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

NON-COMPETITION UNDERTAKINGS AND CONFIRMATION

Undertakings given by our Controlling Shareholders

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

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

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

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

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

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

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

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“**Relevant Capacity**” means for its own account or for that of any person, firm or company other than any member of our Group and whether through the medium of any company which is its associate (for which purpose there shall be aggregated with its shareholding or ability to exercise control the shares held or controlled by any of its associates) or as principal, partner, director, employee, consultant or agent and whether for profit, reward or otherwise.

In addition, under the Non-Competition Undertakings, each of our Controlling Shareholders has undertaken to our Company that he/it shall provide and/or procure the provision to our Company and/or our Directors (including the independent non-executive Directors) from time to time all information necessary (including his/its interests in any projects or business opportunities under paragraph (a) above (and including any changes thereof)) for annual review by the independent non-executive Directors with regard to compliance with the terms of the Non-Competition Undertakings and each of our Controlling Shareholders also undertakes to allow our Directors, their respective representatives and the auditors of our Group to have sufficient access to the records of the relevant Controlling Shareholder and his/its associates to ensure their compliance with the terms and conditions under the Non-Competition Undertakings. Each of our Controlling Shareholders has also undertaken to issue an annual confirmation to us on compliance with the terms of the Non-Competition Undertakings, his/its interests in any projects or business opportunities under paragraph (a) above (including any changes thereof), if any, and consenting to the disclosure of such confirmation in the annual reports of our Company, thereby enabling our Company to keep monitoring the relevant compliance by our Controlling Shareholders.

Each of our Controlling Shareholders further undertakes to our Company:

- (A) to supply to our Company prior to the Listing with full and accurate details of any business or interest (if any) which the relevant Controlling Shareholder and/or its/his associates has or may have which competes or may compete with the business from time to time carried on by our Group and any other conflicts of interests (if any) which the relevant Controlling Shareholder has or may have with our Group and whether the relevant Controlling Shareholder and/or its/his associates intends or does not intend to inject such business or interest into our Group;
- (B) at any time during which the Shares of our Company are listed on the Stock Exchange and for so long as the Controlling Shareholders and/or their respective associates are regarded, whether individually or taken together, as controlling shareholders within the meaning of the Listing Rules, notify our Company forthwith of any changes of the details and information referred to in paragraph (A) above so as to enable our Company to, if required, disclose such information by way of an announcement and, if so required by the Stock Exchange, include such information in all circulars, annual reports, half-year reports and/or quarterly reports required to be issued by our Company pursuant to the Listing Rules;
- (C) to procure any Director from time to time nominated by the Controlling Shareholders:
 - (i) to disclose to our Company prior to the Listing and at any time during which the Shares of our Company are listed on the Stock Exchange full and accurate details of any business or interest (if any) which such Director and/or his associates has or may have which competes or may compete with the business from time to time carried on by our Group and any other conflicts of interest (if any) which such Director has or may have with our Group;

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- (ii) to notify our Company forthwith of any changes of the details and information referred to in paragraph (C)(i) above, including any such business or interest acquired by such Director and/or his associates after the Listing so as to enable our Company to include such information in its annual reports and, if so required by the Stock Exchange, its half-year reports, quarterly reports, announcements and/or circulars.

The Controlling Shareholders acknowledge that and, if so required by our Company, procure such Director(s) referred to in paragraph (C) above to acknowledge that the information supplied to our Company pursuant to paragraphs (A), (B) and/or (C) above will or may be disclosed by our Company in this prospectus, circulars, reports, announcements and other statements to the Stock Exchange and/or any regulatory authorities and their respective officers and employees from time to time issued by our Company and that such disclosure is required by our Company in order to comply with the requirements of the Stock Exchange and/or other regulatory bodies.

Concerning the Non-Competition Undertakings,

- (a) the independent non-executive Directors would review, at least on an annual basis, the compliance with and enforcement of the terms of the Non-Competition Undertakings by our Controlling Shareholders and if any, the options, pre-emptive rights or first rights of refusals provided by our Controlling Shareholders and/or their respective associates on their existing or future competing businesses;
- (b) our Company shall disclose decisions with basis on matters reviewed by the independent non-executive Directors relating to non-compliance and enforcement of the Non-Competition Undertakings (including whether to take up the options, pre-emptive rights or first rights of refusals) either through annual report, or by way of announcement and/or other documents issued or published by our Company as required under the Listing Rules; and
- (c) our Company shall disclose in the corporate governance report of its annual reports on how the terms of the Non-Competition Undertakings are complied with and enforced.

Confirmation given by other Directors

Each Director confirms that he/she does not have any competing business with our Group.

CORPORATE GOVERNANCE

Our Directors recognize the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders. We would adopt the following corporate governance measures in relation to managing potential conflict of interests (if any) between our Group and our Directors (including independent non-executive Directors and the Controlling Shareholders):

- (a) Each Director has, pursuant to his service contract or engagement letter, covenanted with and undertaken to our Company that during the term of his/her service or appointment, he/she shall not, and shall procure that none of his/her associates shall, directly or indirectly, be engaged in or concerned with or interested in any business which is or may be in any respect in competition with the business carried on from time to time by our Group. However, the

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aforesaid restriction does not prohibit the holding (directly or through nominees) by a Director and/or his/her associates of any securities listed on any stock exchanges as long as not more than 5% of the total voting rights attaching to the securities of the same class shall be so held (or, if such investment or holding is over 5%, our Directors concerned should seek the Board's prior written approval before making the relevant investment (with the relevant Director abstaining from voting)) and on the condition that neither the Director nor his/her associates participate in or are otherwise involved in the management of that company and shall not restrict the holding of any securities of our Company. Subject to the exceptions as aforesaid, during the term of his/her appointment and for a period of one year after the expiry or the termination of his/her service or appointment, a Director shall not, and shall procure that none of his/her associates will, directly or indirectly, either alone or jointly with others or as manager or agent for any person, firm or company whether or not for gain engage or be engaged in Hong Kong or those regions and markets within the PRC or elsewhere in which any member of our Group operates or has operated any part of its business from time to time, whether directly or indirectly, in any business which is or may be in competition with the business carried on from time to time by our Group.

In principle, the Board will give its written approval for Directors to hold more than 5% of the total voting rights in any listed securities ("**Investee Company**") when it considers that such holding will not prejudice the interest of our Company and its Shareholders as a whole. In particular, a balance of the following criteria will be taken into account:

- (1) the revenue contributed by the competing or possibly competing sector as compared with the total revenue of the Investee Company — if the contribution is insignificant, the Board may, on balance, be more inclined to allow the 5% or more shareholding in the Investee Company;
 - (2) the shareholding structure of the Director concerned in the Investee Companies after such investment — if the Director concerned will become the single largest shareholder of the Investee Company, the Board may, on balance, be less inclined to allow the 5% or more shareholding in the Investee Company;
 - (3) the entitlement to board seat by the relevant Director in the Investee Company — if the Director concerned will also be entitled a major portion of the board seat of the Investee Company, the Board may, on balance, be less inclined to allow the 5% or more shareholding in the Investee Company; and
 - (4) other applicable factors (e.g. market sentiment, the development strategy of our Group at the material time) which the Board considers relevant from time to time.
- (b) Where a Board meeting is to be held for considering proposed transactions in which the relevant Controlling Shareholders/Director(s) has a material interest, the relevant Controlling Shareholder and/or the relevant Director concerned may not vote on the resolutions of the Board approving the same and shall not be counted in the quorum for the voting so as to ensure the relevant matters will be considered by disinterested Directors only.
- (c) Where the advice from independent professional, such as that from financial adviser, is reasonably requested by our Directors (including the independent non-executive Directors), the appointment of such independent professional will be made at our Company's expenses.