
CONNECTED TRANSACTIONS

Upon the Listing, the transactions set forth below will constitute continuing connected transactions (as such term is defined under the Listing Rules) for our Company under Chapter 14A of the Listing Rules.

Relationship between our Group and the connected persons

The relevant connected persons with whom certain members of our Group have entered into continuing connected transactions are as follows:

(i) *Mr. Liu and Ms. Zhou*

Mr. Liu and Ms. Zhou are our Directors and Mr. Liu is one of our Controlling Shareholders. They are therefore connected persons of our Company under Rule 14A.11(1) of the Listing Rules.

(ii) *Yancheng Xingyu Construction Materials Manufacturing Company Limited (鹽城興宇建材製造有限公司) (“Xingyu Construction”)*

Xingyu Construction is owned as to 40% by Mr. Liu and is therefore an associate of Mr. Liu and a connected person of our Company under Rule 14A.11(4) of the Listing Rules. Xingyu Construction is principally engaged in the production and sales of machineries and equipment for environmental protection.

(iii) *Yancheng City San Ben Concrete Company Limited (鹽城三本混凝土有限公司) (“San Ben Concrete”)*

San Ben Concrete is owned as to 50% by Mr. Liu and is therefore an associate of Mr. Liu and a connected person of our Company under Rule 14A.11(4) of the Listing Rules. San Ben Concrete is principally engaged in the production of commodity concrete, sale of building materials and lease of building equipment.

(iv) *PRC Operational Entity*

Since Mr. Liu is the sole beneficial owner of the PRC Operational Entity, the PRC Operational Entity is Mr. Liu’s associate and is therefore a connected person of our Company under Rule 14A.11(4) of the Listing Rules.

Under the Listing Rules, for so long as Mr. Liu, Ms. Zhou, Xingyu Construction, San Ben Concrete and/or the PRC Operational Entity remain connected persons of our Company, the following transactions between our Group and the abovementioned connected persons would constitute continuing connected transactions for our Company upon the Listing.

(A) Exempted continuing connected transactions

Upon our Listing, the following continuing connected transactions under this paragraph (A) will constitute exempt connected transactions for our Company under Rule 14A.33(3) of the Listing Rules. They are exempted from the reporting, announcement and independent

CONNECTED TRANSACTIONS

Shareholders' approval requirements stipulated under the Listing Rules because they are conducted on normal commercial terms and each of the percentage ratios (other than the profits ratio) of the following transactions on an annual basis is less than 0.1%.

(i) *Tenancy agreement with Xingyu Construction*

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

(ii) *Tenancy agreement with San Ben Concrete*

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

According to Jones Lang LaSalle Sallmanns Limited, an independent property valuer, the annual rentals under the tenancy agreements with both Xingyu Construction and San Ben Concrete respectively are no higher than the prevailing market rates and the terms of these agreements are normal commercial terms.

(B) *Continuing connected transactions subject to reporting, announcement and independent Shareholders' approval requirements*

A waiver application from strict compliance with the relevant announcement and independent Shareholders' approval requirements has been submitted to and granted by the Stock Exchange.

Background for the Contractual Arrangements

Our Group is principally engaged in providing capital dredging and reclamation dredging services and it also offers maintenance dredging and environmental protection dredging services in the PRC.

In China, enterprises engaging in dredging business must obtain a general contracting certificate for port and waterway construction (港口與航道工程施工總承包企業資質) or a specialty contracting certificate for waterway construction (航道工程專業承包企業資質). One of the requirements for issuance of such certificate by the relevant PRC authorities is that the applicant enterprise must be registered owner of vessel(s) with the stipulated functions. Under the relevant PRC laws, the Maritime Safety Administration of the PRC would not register the ownership of a vessel if such vessel is owned by any enterprise whose

CONNECTED TRANSACTIONS

registered capital is contributed by Chinese investor(s) by less than 50%. As a result, the maximum foreign investment in the dredging business sector is limited to 50% of the equity interests in a target enterprise which owns vessels for conducting the dredging business.

Pursuant to the Contractual Arrangements between the PRC Operational Entity on the one part and Xiangyu PRC, Mr. Liu and Ms. Zhou (as the case may be) on the other part, we conduct our business operations indirectly in the PRC through the PRC Operational Entity by way of the Contractual Arrangements. The PRC Operational Entity will continue to engage in its existing business activities.

Although our Group does not have any direct or indirect equity holding in the PRC Operational Entity, we manage to maintain an effective control over the financial and operational policies of the PRC Operational Entity and are entitled to the economic benefits derived from the operations of the PRC Operational Entity through the Contractual Arrangements, details of which are set out below:

Principal terms of the transactions

The Contractual Arrangements comprise the following agreements: Composite Services Agreement, Option Agreement, Proxy Agreement, Equity Pledge Agreement and Vessel Pledge Agreements. Brief details of the continuing connected transactions (*i.e.*, the transactions contemplated by the said agreements which constitute the Contractual Arrangements) entered into between the relevant connected persons and Xiangyu PRC are set out in the section headed “Business — Contractual Arrangements” of this prospectus.

Reasons for this application and the view of our Directors on the continuing connected transactions

As advised by the PRC Legal Advisers to our Company in connection with the Listing, the Contractual Arrangements are in compliance with and, to the extent governed by the PRC laws currently in force, are enforceable under the current PRC laws and that in the event of any breach or default by Mr. Liu, Ms. Zhou or the PRC Operational Entity, Xiangyu PRC can take legal actions against any one of them.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements are fundamental to our Group’s legal structure and business operations and are on normal commercial terms or terms more favorable to our Group in the ordinary and usual course of our Group’s business and are fair and reasonable or to the advantage of our Group and are in the interests of the Shareholders as a whole.

Our Directors also believe that our Group’s structure whereby the financial results of the PRC Operational Entity are consolidated into our Group’s financial statements as if it was our Group’s wholly owned subsidiary, and the economic benefit of its business flows to our Group, places our Group in a special position in relation to the connected party transaction rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions for the purposes of Chapter 14A of the Listing Rules, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs of our Company, for all

CONNECTED TRANSACTIONS

transactions contemplated under the Contractual Arrangements to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and approval of the independent Shareholders.

To ensure sound and effective operation of our Group after the adoption of the Contractual Arrangements, the management of our Group plans to take the following measures:

- (a) as part of the internal control measures, major issues arising from implementation of the Contractual Arrangements will be reviewed by the Board on a regular basis which will be no less frequent than every quarters;
- (b) matters relating to compliance and regulatory enquiries from governmental authorities (if any) will be discussed at such regular meetings or extraordinary meetings of the Board, if appropriate;
- (c) the relevant business units and operation divisions of our Group will report regularly (which will be no less frequent than on a monthly basis) to the senior management of our Company on the compliance and performance conditions under the Contractual Arrangements and other related matters;
- (d) our Company shall comply with the conditions prescribed under the waiver given by the Stock Exchange in connection with the continuing connected transactions contemplated under the Contractual Arrangements; and
- (e) (if required) legal advisers and/or other professionals will be retained to assist our Group to deal with specific issues arising from the Contractual Arrangements.

Application for and conditions of waiver

In view of the above, we have applied to the Stock Exchange pursuant to Rule 14A.42(3) of the Listing Rules for, and the Stock Exchange has granted, a waiver from (i) strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting a maximum aggregate annual value (*i.e.*, an annual cap) for the fees payable to Xiangyu PRC under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements to three years or less, for so long as Shares are listed on the Stock Exchange subject however to the following conditions:

- (a) *No change without independent non-executive Directors' approval:* No changes to the terms of any of the contracts constituting the Contractual Arrangements will be made without the approval of the independent non-executive Directors.
- (b) *No change without independent Shareholders' approval:* Save as described in paragraph (d) below, no changes to the terms of any of the contracts constituting the Contractual Arrangements will be made without the approval of our Company's independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the

CONNECTED TRANSACTIONS

independent Shareholders, except for those described above, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

- (c) *Economic benefits flexibility:* The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the PRC Operational Entity through: (i) our Group's potential right (if and when so allowed under the applicable PRC laws) to acquire the equity interests in the PRC Operational Entity; (ii) the business structure under which the revenue generated by the PRC Operational Entity is substantially retained by Xiangyu PRC (such that no annual caps shall be set on the amount of services fees payable to Xiangyu PRC under the Composite Services Agreement); and (iii) Xiangyu PRC's right to control the management and operation of, as well as, in substance, all of the voting rights of the PRC Operational Entity.

- (d) *Renewal and cloning:* On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on one hand, and the PRC Operational Entity, on the other hand, that framework may be renewed and/or cloned upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as described under the section headed "Business — Contractual Arrangements" above of this prospectus. Such new wholly foreign-owned enterprise or operating company (including branch company) may be established by our Group for expansion into the market due to potential business growth. If and when the term of operation of the PRC Operational Entity as set out in its operating license comes to an end in future, our Group may also establish new companies as and when considered necessary. The directors, chief executive or substantial shareholders (as defined in the Listing Rules) of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish when justified by business expediency will, upon renewal and/or cloning of the Contractual Arrangements, however be treated as our Group's connected persons and transactions between these connected persons and our Group other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant laws, regulations and approvals of the PRC.

CONNECTED TRANSACTIONS

- (e) *Ongoing reporting and approvals:* our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:
- (1) The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules.
 - (2) Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the revenue generated by the PRC Operational Entity has been substantially retained by Xiangyu PRC; (ii) no dividends or other distributions have been made by the PRC Operational Entity to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) any new contracts entered into, renewed or reproduced between our Group and the PRC Operational Entity during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Shareholders as a whole.
 - (3) Our Company's auditors will carry out procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange, at least ten Business Days before our Company bulk prints its annual report, reporting their findings whether that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by the PRC Operational Entity to the holders of its equity interests which are not otherwise subsequently assigned/transferred to our Group.
 - (4) For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the PRC Operational Entity will be treated as our Company's wholly owned subsidiary, but at the same time, the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the PRC Operational Entity and their respective associates will be treated as our Company's "connected persons" (excluding for this purpose the PRC Operational Entity) and transactions between these connected persons and our Group (including for this purpose the PRC Operational Entity) other than those under the Contractual Arrangements shall comply with Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

- (5) The PRC Operational Entity will undertake that, for so long as the Shares are listed on the Stock Exchange, the PRC Operational Entity will provide our Group's management and our Company's auditors with full access to its relevant records for the purpose of procedures to be carried out by our Company's auditors' on the connected transactions.

Confirmation from the Sole Sponsor

The Sole Sponsor is of the view that the terms of the agreements constituting the Contractual Arrangements and the transactions contemplated thereunder have been entered into in our ordinary and usual course of business, on normal commercial terms and are fair and reasonable and are in the interests of the Shareholders as a whole.