You should read the following discussion and analysis of our Company's financial condition and results of operations together with our combined financial statements as of and for each of the years ended December 31, 2008, 2009 and 2010 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus. The accountants' report has been prepared in accordance with HKFRS. Potential investors should read the whole of the accountants' report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are the largest privately owned dredging company in China, based on dredging volume in 2010, with market shares of 15.5% among privately owned dredging companies and 2.4% among all dredging companies in the PRC in 2010, according to the Frost & Sullivan Report. We are engaged in providing capital dredging, reclamation dredging, maintenance dredging and environmental protection dredging services. In addition, we provide dredging-related construction services, which include small-scale land reclamation construction, temporary road construction and soil compaction.

We have achieved significant revenue and profit growth in recent years. Our revenue increased from RMB133.3 million in 2008, to RMB346.5 million in 2009, and to RMB374.9 million in 2010, and our profit and total comprehensive income for the year increased from RMB45.7 million in 2008, to RMB88.8 million in 2009, and to RMB95.0 million in 2010.

We have a limited operating history. Our performance during the Track Record Period may not serve as an adequate basis to evaluate our business. You should consider the risks and difficulties frequently encountered by early-stage companies such as our Company. Our recent revenue growth should not be taken as indicative of the revenue growth, if any, that can be expected in the future. In addition, our limited operating history provides a limited historical basis for assessing the impact that critical accounting policies may have on our business and our financial performance. See "Risk Factors — Risks Relating to Our Industry and Our Business — Our limited operating history may not serve as an adequate basis to judge our future prospects and results of operations."

BASIS OF PRESENTATION

Our combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flow for the Track Record Period have been prepared on a combined basis and include the results of operations of our Company and our subsidiaries for the Track Record Period as if the current company structure had been in existence throughout the Track Record Period. Our combined statements of financial position as of December 31, 2008, 2009 and 2010 have been prepared to present our combined assets and liabilities as of those dates. All intra-company transactions and balances are eliminated on combination.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We believe the most significant factors that directly or indirectly affect our financial performance and results of operations include:

Waterway Transportation Infrastructure Spending in China

We operate primarily in the dredging and construction industries in China. In the past, we have benefited significantly from the PRC government's spending on transportation infrastructure, principally the construction and improvement of ports and waterways. The PRC government's spending on waterway transportation infrastructure grew at a CAGR of 11.2% from 2005 to 2010. To cope with the demand of sustained economic growth, the PRC government allocated RMB3.8 trillion for transportation projects, including ports and waterways, under its Eleventh Five Year Plan. We expect that continued spending on waterway transportation infrastructure construction by the PRC government will generate significant business opportunities for us in the coming few years. If the PRC government decides to reduce spending on waterway transportation infrastructure projects in China, our revenue growth could slow or our revenue could decline.

New Contracts and Business Growth

To sustain our revenues and the growth of our business, we must continually expand our customer base, renew existing contracts and secure new contracts with existing and new customers.

For large-scale dredging projects, our customers typically divide the work into projects covering different phases and offer individual contracts for each project. Each contract only covers a portion of the dredging work for an entire development project and may be short-term in nature. Therefore, most of our contracts with customers are short-term, having a term of less than 12 months. We must periodically seek to enter into new contracts or renew our contracts when our current contracts are completed. Due in part to our good customer relationships and reputation for delivering good quality services, we have not experienced difficulty in renewing our contracts with our existing customers or securing new contracts with existing and new customers. However, if we are unable to renew our existing contracts or secure new contracts, our business and operating results may be materially and adversely affected. See "Risk Factors — Risks Relating to Our Industry and Our Business — Most of our contracts with customers are short-term in nature and are not automatically renewed. If we fail to renew our existing contracts or secure new contracts on a continual basis, our operating results may be materially and adversely affected" for details.

We have successfully developed certain key customer relationships to become important strategic partnerships for securing new business. For example, in January 2008 and May 2010, we entered into strategic partnership agreements with TDC Port and CWWEC, respectively, to jointly bid for and perform dredging projects. We also seek to undertake long-term dredging projects to enhance the stability of our income. For example, in July 2010, we entered into a dredging contract with CWWEC for capital and reclamation dredging work for the port expansion project in Jingtang Harbor, Hebei Province with a total contract value of RMB800.0 million. We also entered into a non-binding five-year framework agreement with Haixing and a non-binding letter of intent with the Dongying Committee in August 2010 to perform capital and reclamation dredging work for projects in Yancheng City, Jiangsu Province and Dongying Harbor, Shandong Province, respectively. The framework agreement and letter of intent are not legally binding and are subject to signing of definitive contracts, and thus such projects may not proceed and generate any revenue.

Competition

Our performance is affected by competition in the markets where we operate. Our ability to sustain our profitability and growth will primarily depend on our ability to compete with and differentiate ourselves from our competitors. China's dredging market is largely dominated by state-owned enterprises, which had an estimated market share of 81.9% in 2010, as measured by dredging volume, according to the Frost & Sullivan Report. However, privately owned enterprises in the dredging industry are growing rapidly.

The dredging business is capital intensive, requires highly specialized equipment and has significant barriers to entry. State-owned dredging companies may have advantages over privately owned dredging companies, including us, in terms of equipment, capacity and capital. Meanwhile, in our experience, small dredging companies are often more competitive on pricing than big state-owned dredging companies. If competition increases in the dredging industry, we may experience difficulty in successfully competing against state-owned dredging companies to secure contracts and in addition, we may experience some pricing competition with other privately owned dredging companies. However, we believe that we have a more flexible operating structure than big state-owned dredging companies and that our structure allows us to respond quickly to changing market conditions. Moreover, we believe that we possess better project management skills, which allow us to provide better quality services in order to compete well with local state-owned and privately owned dredging companies.

CCCC and our other customers outsource work to us. Since our customers also provide dredging services, our customers are also our competitors. We believe that we have developed close relationships with our customers through providing quality work and that they will not easily replace us with other subcontractors. Nonetheless, if our customers expand their capacity, cease outsourcing to us or replace us with other subcontractors, our net revenues and profitability would be substantially reduced.

We intend to leverage our strong relationships with our customers and our advanced technical know-how to obtain more maintenance and environmental protection dredging work and thereby capitalize on the PRC government's plans to increase spending on transportation infrastructure construction and raise its environmental protection standards. While we hope that maintenance and environmental protection dredging services will contribute to our revenue growth, we will face competition in these new areas from dredging companies that have more experience in these lines of business than us.

Expansion of Dredging Capacity

Growth in our revenue depends to a large extent on our ability to expand our dredging capacity. We have been addressing our capacity constraints through purchasing and chartering additional dredgers from third parties. For the years ended December 31, 2008, 2009 and 2010, our chartering cost amounted to RMB9.9 million, RMB20.4 million and RMB72.0 million, respectively, representing 13.8%, 9.2%, and 35.1%, respectively, of our total operating costs in these periods. In 2010, we acquired two dredgers with a total hourly dredging capacity of 5,500 cubic meters for an aggregate amount of RMB346.0 million. In addition, we have engaged subcontractors to supplement our capacity on a short-term basis.

In the next five years, we plan to continue our strategic and cost-efficient practice of both purchasing and chartering dredgers. The availability of spare dredging capacity will often determine which projects and contracts we accept, and we believe that expanding our dredging capacity may enable us to increase our revenue in the foreseeable future. Our ability to successfully expand our capacity may be affected by a number of factors, including the availability of dredgers for purchasing or chartering, the availability of skilled labor for any new dredgers we purchase or charter, and availability of funding. Please refer to the section headed "Business — Facilities and Equipment" of this prospectus for further details.

Subcontracting Charges

Subcontracting charges represented the single largest component of our operating cost for each of the years ended December 31, 2008 and 2009, accounting for 47.4% and 68.7%, respectively, of our operating cost in these years. In the year ended December 31, 2010, our subcontracting charges decreased significantly and accounted for only 6.2% of our operating cost in that year. Generally, subcontracting our work to third parties results in higher costs than performing the work ourselves through the use of our own dredgers or chartered dredgers. In the Track Record Period, we provided a portion of our dredging services through subcontractors due to our capacity constraints. However, in the year ended December 31, 2010, this portion was substantially lower as we increased our capacity of owned and chartered vessels. Our subcontractors are other dredging companies in China. Please refer to the sections headed "Business — Subcontracting" and "Business — Project Sourcing and Management — Subcontractors" of this prospectus for further details.

As we increase our dredging capacity, we intend to continue to reduce our use of subcontractors. Subcontracting charges as a percentage of our operating cost decreased from 68.7% for 2009 to 6.2% for 2010. Our reduced use of subcontractors in 2010 helped us to achieve a higher gross profit margin in that year than in 2009.

Fuel Cost

Fuel cost represented the second largest component of our operating cost during the Track Record Period, accounting for 25.7%, 12.1% and 29.8% of our operating cost for each of the years ended December 31, 2008, 2009 and 2010, respectively. While fuel prices can fluctuate significantly, we have not experienced any significant difficulties in obtaining sufficient quantities of fuel at commercially viable prices. Most of our contracts with our customers are fixed-price contracts that typically do not contain material price pass-through provisions, although we are, at times, able to pass on increases in the cost of materials when we renew or enter into new contracts.

Fuel prices increased significantly over the Track Record Period. Our fuel cost also increased over the Track Record Period, driven by increased fuel prices and our expansion of capacity through chartering and purchasing additional dredgers. We have begun and intend to continue to limit our exposure to raw material price volatility by entering into contracts with customers which contain escalation clauses to cover increases in the cost of fuel. These escalation clauses would require us to bear increases in fuel costs up to an agreed upon limit and our customers to bear amounts in excess thereof to help mitigate the impact on us of significant fuel price increases. To the extent that we are unable to promptly pass any price increases on to our customers, we expect that fuel cost will continue to affect our gross profit margins.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare financial statements in conformity with HKFRSs issued by the HKICPA, which require us to make estimates and assumptions that affect the amounts reported in our combined financial statements and related notes. We periodically evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from services income is recognized when services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective applicable interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Impairments

At the end of each reporting period, we review the carrying amounts of our tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is immediately recognized as income.

Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Tax currently payable is based on taxable profit for a given year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and further excludes items that are not taxable or tax deductible. Our liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

DESCRIPTION OF CERTAIN ITEMS OF THE STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Revenue by business segment

During the Track Record Period, we generated our revenue from two operating segments: (i) our dredging business and (ii) our dredging-related construction business.

The following table sets forth our revenue contributed by each of our business segments and as a percentage of our total revenue for the periods indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Dredging business	97,804	73.3%	287,967	83.1%	362,766	96.8%
Dredging-related construction business	35,545	26.7%	58,582	16.9%	12,117	3.2%
Total revenue	133,349	100.0%	346,549	100.0%	374,883	100.0%

Dredging Business. We derive revenue in our dredging business primarily from the provision of dredging services, including capital and reclamation dredging, maintenance dredging and related consultation services. Our customers are typically state-owned enterprises.

Dredging-related Construction Business. We derive revenue in our dredging-related construction business primarily from ancillary work related to the dredging services which we perform for customers of our dredging business. Such construction services include small-scale land reclamation construction, temporary road construction and soil compaction.

Revenue by type of dredging

The following table sets forth revenue contributed by each of our capital and reclamation dredging and maintenance dredging businesses and as a percentage of our total revenue for the periods indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Capital and reclamation dredging(1)	133,349	100.0%	344,552	99.4%	372,264	99.3%
Maintenance dredging(1)	—	—	1,997	0.6%	2,619	0.7%
Total revenue(1)	133,349	100.0%	346,549	100.0%	374,883	100.0%

(1) Revenue from both dredging business and dredging-related construction business is included in capital and reclamation dredging, maintenance dredging and total revenue.

Revenue by project

The following table sets forth revenue contributed by each of our projects and as a percentage of our total revenue for the periods indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Caofeidian Industrial Area	100,828	75.6%	259,450	74.9%	183,068	48.8%
Dalian Changxingdao Harbor	28,930	21.7%	47,975	13.8%	59,008	15.8%
Qingdao Industrial Area	—	—	35,609	10.3%	—	—
Jingtang Harbor	—	—	—	—	101,262	27.0%
Tianjin Port	—	—	—	—	10,642	2.8%
Others	3,591	2.7%	3,515	1.0%	20,903	5.6%
Total revenue	133,349	100.0%	346,549	100.0%	374,883	100.0%

Operating Cost

Our operating cost primarily includes subcontracting charges, fuel cost, chartering cost, staff cost, depreciation, spare parts, repairs and insurance and consultancy fees. Subcontracting charges, fuel cost, chartering cost and spare parts, repairs and insurance constituted the four largest components of our operating cost, collectively amounting to over 90% of our total operating cost in 2008 and 2009 and over 85% of our total operating cost in 2010.

The following table sets forth the amount and percentage of our operating cost contributed by each of our business segments for the period indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Dredging business	45,448	63.1%	178,763	80.2%	195,103	95.3%
Dredging-related construction business	26,539	36.9%	44,174	19.8%	9,720	4.7%
Total operating cost	71,987	100.0%	222,937	100.0%	204,823	100.0%

The following table sets forth the components of our operating cost for the periods indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Operating cost:						
Subcontracting charges	34,123	47.4%	153,186	68.7%	12,604	6.2%
Fuel cost	18,467	25.7%	26,994	12.1%	61,070	29.8%
Chartering cost	9,948	13.8%	20,408	9.2%	71,957	35.1%
Staff cost	3,562	4.9%	6,832	3.0%	16,737	8.2%
Depreciation	1,361	1.9%	2,104	0.9%	10,815	5.3%
Spare parts, repairs and insurance	4,262	5.9%	13,213	6.0%	31,496	15.3%
Consultancy fees	264	0.4%	200	0.1%	144	0.1%
Total operating cost	71,987	100.0%	222,937	100.0%	204,823	100.0%

Dredging business. Our operating cost for our dredging business primarily consists of subcontracting charges, fuel cost, chartering cost, spare parts, repairs and insurance, staff cost, depreciation and consultancy fees.

The following table sets forth the components of our operating cost for our dredging business for the periods indicated.

	Year ended December 31,					
	2008		2009		2010	
	(in thousands of RMB, except for percentages)					
Operating cost:						
Subcontracting charges	7,584	16.7%	109,012	61.0%	2,884	1.5%
Fuel cost	18,467	40.6%	26,994	15.1%	61,070	31.3%
Chartering cost	9,948	21.9%	20,408	11.4%	71,957	36.9%
Staff cost	3,562	7.8%	6,832	3.8%	16,737	8.6%
Depreciation	1,361	3.0%	2,104	1.2%	10,815	5.5%
Spare parts, repairs and insurance	4,262	9.4%	13,213	7.4%	31,496	16.1%
Consultancy fees	264	0.6%	200	0.1%	144	0.1%
Total	45,448	100.0%	178,763	100.0%	195,103	100.0%

Dredging-related construction business. We subcontracted all of our dredging-related construction work to third parties during the Track Record Period. Therefore, our operating cost from our dredging-related construction business only consisted of subcontracting charges.

Gross Margin

The following table sets forth the gross profit margin of each of our business segments for the period indicated.

	Years ended December 31,		
	2008	2009	2010
Dredging business	53.5%	37.9%	46.2%
Dredging-related construction business	25.3%	24.6%	19.8%
Overall	46.0%	35.7%	45.4%

In addition, our different projects are subject to different risks and therefore tend to have different gross profit margins. Our gross profit margin for a particular project may also vary from one year to another due to various reasons, including competition for the project, the type of dredgers employed, the dredger capacity and working efficiency rate, dredger repair and maintenance requirements, the geological condition of a particular project site and the subcontracting ratio for the project.

Marketing and Promotion Expenses

Our marketing and promotion expenses primarily consist of travel and entertainment expenses attributable to our bidding and selling activities.

Administrative Expenses

Our administrative expenses primarily consist of depreciation, rental expenses, staff benefits and allowance, administrative staff cost, and stamp duty. In the year ended December 31, 2010, the largest components of our administrative expenses were other expenses and charges paid to local government. During 2010, we undertook a corporate reorganization and established an office in Hong Kong, both of which were done in preparation for the Global Offering. We incurred administrative expenses in connection with this reorganization, mainly including exchange losses, and the establishment of our Hong Kong office, primarily consisting of salaries, rental and other office expenses. In additional, local government authorities charged us additional administrative fees in 2010 as our business expanded. In the years ended December 31, 2008 and 2009, the largest components of our administrative expenses were depreciation, and staff benefits and allowance.

Other Income

Other income primarily consists of rental income from sub-leases of chartered dredgers and leases of self-owned plant and machinery, less related rental expenses and business tax.

Finance Costs

Finance costs primarily consist of interest expense on bank borrowings and discounted bills.

Income Tax

Income tax primarily represents income tax payable by us under relevant PRC income tax rules and regulations.

RESULTS OF OPERATIONS

The following table sets forth a summary, for the periods indicated, of our combined results of operations. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Years ended December 31,		
	2008	2009	2010
	(in thousands of RMB, except earnings per share data)		
Combined income statements			
Revenue	133,349	346,549	374,883
Operating cost	(71,987)	(222,937)	(204,823)
Gross profit	61,362	123,612	170,060
Other income	4,292	4,803	26
Marketing and promotion expenses	(820)	(1,779)	(2,979)
Administrative expenses	(2,093)	(3,348)	(6,267)
Listing expenses	—	—	(21,531)
Finance costs	(816)	(1,317)	(3,640)
Profit before tax	61,925	121,971	135,669
Income tax expense	(16,261)	(33,130)	(40,639)
Profit and total comprehensive income for the year	45,664	88,841	95,030
Earnings per share:			
Basic (RMB)	0.57	0.80	0.38

Year ended December 31, 2010 compared to the year ended December 31, 2009

Revenue. Our revenue increased by 8.2% from RMB346.5 million for the year ended December 31, 2009 to RMB374.9 million for the same period in 2010, due to an increase in revenue from our dredging business, partially offset by a decrease in revenue from our dredging-related construction business.

- Revenue from our dredging business increased from RMB288.0 million in the year ended December 31, 2009 to RMB362.8 million in the year ended December 31, 2010. Revenue from our dredging business as a percentage of our revenue increased from 83.1% in 2009 to 96.8% in 2010. These increases were primarily due to the continued growth of our dredging business. We signed additional new contracts to undertake dredging work for the Caofeidian Industrial Area, Dalian Changxingdao Harbor, Jingtang Harbor, Yancheng City, Yingkou Harbor, Tianjin Port and Hainan Yangpu Area projects in 2010. The increase in the percentage contribution of revenue from our dredging business in 2010 was also due to our increased focus on our dredging business relative to our dredging-related construction business in this year. We expect revenue from our dredging business to continue to account for the majority of our revenue going forward.

- Revenue from our dredging-related construction business decreased from RMB58.6 million in 2009 to RMB12.1 million in 2010. Revenue from our dredging-related construction business as a percentage of our revenue decreased from 16.9% in 2009 to 3.2%in 2010. These decreases were primarily due to the rapid expansion of our dredging business and our focus on utilizing our capacity for dredging services which enjoy higher gross profit margins than dredging-related construction services.

Operating cost. Our operating cost decreased by 8.1% from RMB222.9 million in 2009 to RMB204.8 million in 2010. The decrease in our operating cost was primarily due to a significant decrease in sub-contracting charges from RMB153.2 million in 2009 to RMB12.6 million in 2010, partially offset by increases in chartering cost from RMB20.4 million in 2009 to RMB72.0 million in 2010 and in fuel cost from RMB27.0 million in 2009 to RMB61.1 million in 2010.

Gross profit. As a result of the foregoing, our gross profit increased by 37.6% from RMB123.6 million in 2009 to RMB170.1 million in 2010, and our gross profit margin increased from 35.7% in 2009 to 45.4% in 2010. The increase in our gross profit margin was principally due to a significant decrease in subcontracting costs as we decreased the use of subcontractors by expanding our capacity and improving our average dredger working efficiency rate. The gross profit margins of our major dredging projects ranged from 24.1% to 57.2% in 2010, as compared to 11.7% to 49.3% in 2009. The gross profit margin of our lowest margin project increased from 2009 to 2010 due to a lower subcontracting ratio, which was enabled by our expanded capacity during this period. The highest gross profit margin of our major projects increased from 2009 to 2010 due to more favorable geological conditions including more stable seabed formations which allowed for easier extraction of sediment in a project area, which enabled us to achieve a high working efficiency rate on this project.

Other income. Our other income decreased by 99.5% from RMB4.8 million in 2009 to RMB26,000 in 2010. This decrease was primarily due to the fact that we had no rental income from sub-leases of chartered dredgers or leases of self-owned plant and machinery in 2010.

Marketing and promotion expenses. Our marketing and promotion expenses increased by 67.5% from RMB1.8 million in 2009 to RMB3.0 million in 2010, primarily due to an increase in travel expenses as our business continued to expand, partially offset by a decrease in entertainment expenses.

Administrative expenses. Our administrative expenses increased by 87.2% from RMB3.3 million in 2009 to RMB6.3 million in 2010. This increase was primarily due to an increase of RMB1.2 million in charges paid to local government and an increase of RMB1.2 million in other expenses incurred in connection with our reorganization, mainly including exchange losses, and establishment of a Hong Kong office, which we undertook to prepare for the Global Offering.

Listing expenses. Such expenses represent the listing expenses incurred by our Group in 2010 in relation to the preparation of the Global Offering. No such expenses were recorded for the year 2008 and 2009.

Finance cost. Our finance cost increased by 176.4% from RMB1.3 million in 2009 to RMB3.6 million in 2010, primarily due to an increase of RMB1.0 million in interest expense on bank borrowings and an increase of RMB1.3 million in interest expenses on discounted bills.

Profit before tax. As a result of the cumulative effect of the above factors, our profit before tax increased by 11.2% from RMB122.0 million in 2009 to RMB135.7 million in 2010.

Income tax expenses. Our income tax expenses increased by 22.7% from RMB33.1 million in 2009 to RMB40.6 million in 2010, primarily due to an increase in our taxable income. Our effective tax rate increased from 27.2% in 2009 to 30.0% in 2010 primarily due to the establishment of Xiangyu PRC, a PRC wholly foreign-owned enterprise, in June 2010. Xiangyu PRC incurred a loss in its first year of operation which could not be offset against the profits of our PRC Operational Entity.

Profit and total comprehensive income for the year. As a result of the cumulative effect of the above factors, our profit and total comprehensive income for the year increased by 7.0% from RMB88.8 million in 2009 to RMB95.0 million in 2010. Our net margin decreased from 25.6% in 2009 to 25.3% in 2010 primarily due to increases in our listing expenses, income tax, marketing and promotion expenses, administrative expenses and finance costs, partially offset by an increase in our gross profit margin from 35.7% to 45.4% in such period.

Year ended December 31, 2009 compared to year ended December 31, 2008

Revenue. Our revenue increased by 159.9% from RMB133.3 million in 2008 to RMB346.5 million in 2009 due to increases in revenues from both our dredging business and dredging-related construction business.

- Revenue from our dredging business increased significantly from RMB97.8 million in 2008 to RMB288.0 million in 2009. Revenue from our dredging business as a percentage of our revenue increased from 73.3% in 2008 to 83.1% in 2009. These increases were primarily due to the continued growth of our dredging business. We signed additional new contracts for the Caofeidian Industrial Area project and Dalian Changxingdao Harbor project and commenced dredging work for the Qingdao Industrial Area project.

- Revenue from our dredging-related construction business increased by 64.8% from RMB35.5 million in 2008 to RMB58.6 million in 2009. The increase was primarily due to the growth of our dredging-related construction business, mainly in connection with the Caofeidian Industrial Area project. Revenue from our dredging-related construction business as a percentage of our revenue decreased from 26.7% in 2008 to 16.9% in 2009. The decrease was primarily a result of the higher growth of our dredging business as compared to that of our dredging-related construction business.

Operating cost. Our operating cost increased significantly from RMB72.0 million in 2008 to RMB222.9 million in 2009. The increase in our operating cost primarily reflected increases in the following components:

- an increase in subcontracting charges from RMB34.1 million in 2008 to RMB153.2 million in 2009, as we increased our use of subcontractors due to increases in demand for our services arising from short-term contracts and capacity constraints that we experienced;

- an increase in fuel cost from RMB18.5 million in 2008 to RMB27.0 million in 2009, reflecting the continued expansion of our business; and

- an increase in chartering cost from RMB9.9 million in 2008 to RMB20.4 million in 2009, as we increased the number of chartered dredgers to supplement our dredging capacity in response to increases in long-term contracts.

Gross profit. As a result of the foregoing, our gross profit increased by 101.4% from RMB61.4 million in 2008 to RMB123.6 million in 2009. However, our gross profit margin decreased from 46.0% in 2008 to 35.7% in 2009. The decrease in gross profit margin was principally due to the increase in operating cost of our dredging projects, which was primarily driven by increases in subcontracting costs. The gross profit margins of our major dredging projects ranged from 11.7% to 49.3% for 2009, compared to 44.2% to 61.2% for 2008. The decrease in the gross profit margins of our major dredging projects in 2009 as compared to 2008 was generally due to our greater use of subcontracting since our work orders increased at a time when our dredging capacity had not yet been built up accordingly. In addition, the significant decrease in the gross profit margin of our lowest-margin major dredging project during this period was also due to operational difficulties and an unanticipated need to perform repair and maintenance on one of our dredgers, which created additional costs, as well as unanticipated changes in the project's geological landscape, which increased idle time costs.

Other income. Our other income increased by 11.9% from RMB4.3 million in 2008 to RMB4.8 million in 2009, primarily due to a decrease in income from leases of self-owned plant and machinery, partially offset by an increase in gross rental income from sub-leases of chartered dredgers.

Marketing and promotion expenses. Our marketing and promotion expenses increased by 117.0% from RMB0.8 million in 2008 to RMB1.8 million in 2009, primarily due to an increase in travel and entertainment expenses as our business continued to expand.

Administrative expenses. Our administrative expenses increased by 60.0% from RMB2.1 million in 2008 to RMB3.3 million in 2009. This increase was primarily due to increases in depreciation of 34.4% to RMB1.2 million in 2009 from RMB0.9 million in 2008, due to additional motor vehicles acquired for the expansion of our business and increases in staff benefits and allowance and administrative staff cost.

Finance cost. Our finance cost increased by 61.4% from RMB0.8 million in 2008 to RMB1.3 million in 2009, primarily due to an increase in interest expense on bank borrowings as a result of an increase in bank borrowings of RMB20.0 million for working capital purposes, partially offset by a decrease in interest expense on discounted bills.

Profit before tax. As a result of the cumulative effect of the above factors, our profit before tax increased by 97.0% from RMB61.9 million in 2008 to RMB122.0 million in 2009.

Income tax expenses. Our income tax expenses increased by 103.7% from RMB16.3 million in 2008 to RMB33.1 million in 2009, primarily as a result of the increase in our taxable income. Our effective tax rate for the years ended December 31, 2008 and 2009 was 26.3% and 27.2%, respectively.

Profit for the year and total comprehensive income for the year. As a result of the cumulative effect of the above factors, our profit for the year and total comprehensive income for the year increased by 94.6% from RMB45.7 million in 2008 to RMB88.8 million in 2009. Our net margin decreased from 34.2% in 2008 to 25.6% in 2009. The decrease in our net margin was in line with a decrease in our gross profit margin from 46.0% in 2008 to 35.7% in 2009.

INDEBTEDNESS

Borrowings

The following table sets out our bank borrowings as of December 31, 2008, 2009 and 2010, respectively:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Secured bank borrowings	7,500	27,500	40,000
Total	7,500	27,500	40,000

All of our secured bank borrowings are denominated in Renminbi and repayable within one year. Our secured borrowings in the years ended December 31, 2008 and 2009 carried a floating interest rate with reference to the benchmark borrowing rate of PBOC plus certain basis points, and our secured borrowings in 2010 carried fixed interest rates. The effective interest rates of our secured bank borrowings were 7.99%, 6.37% and 4.87%–5.31%, respectively, in the years ended December 31, 2008, 2009 and 2010. Throughout the Track Record Period, most of our secured bank borrowings were supported by personal guarantees provided by Mr. Liu and the pledge of certain properties owned by certain related parties. On September 17, 2010, the pledge of properties was released and has been replaced with a corporate guarantee provided by Xiangyu PRC. In addition, Mr. Liu's personal guarantee has been released.

On March 18, 2011, we entered into a loan extension agreement with Jiangsu Yancheng Huanghai Agricultural Commercial Bank to extend the expiry date of one of our loans from March 20, 2011 to August 20, 2011. Under the original loan agreement, the full principal amount of RMB20 million became due on March 20, 2011. Pursuant to the loan extension agreement, the interest rate of the loan was changed from 4.8675% per month during the original term of the loan to 7.3199% per annum during the extension term of the loan.

As of April 30, 2011, we had aggregate outstanding borrowings of approximately RMB53.5 million comprised of (i) guaranteed bank borrowings of approximately RMB40.0 million; and (ii) amount due to a director of approximately RMB13.5 million. The guaranteed bank borrowings were guaranteed by a corporate guarantee provided by Xiangyu PRC. As of April 30, 2011, we had fully drawn down our RMB40.0 million bank borrowings and had no unutilized banking facilities. We will fully pay the amount due to a director before the date of this prospectus.

The Directors consider that, apart from the pledge of our Group's assets to support the financing granted to Wangji Limited, which is expected to be released on or prior to the Listing, our other related party transactions, *i.e.*, the lease of certain properties by certain related parties to our Group and the above-mentioned pledge of certain properties owned by certain related parties, as well as the personal guarantee provided by Mr. Liu are on normal commercial terms or on terms more or no less favorable to our Group.

Contingent Liabilities

As of the Latest Practicable Date, we did not have significant contingent liabilities.

Pledge of Assets

In connection with the Pre-IPO Investment Agreements, (i) 100% of the issued share capital of each of our Company, Power Wealth BVI and Power Wealth HK, (ii) the entire registered capital of Xiangyu PRC and (iii) the entire ownership of Xiangyu PRC in each of the Kaijin No. 1 and Kaijin No. 3 dredgers were pledged to the lenders as collateral for debt of Wangji Limited. Pursuant to the Pre-IPO Investment Agreements, the collateral including all the shares of our Company, Power Wealth BVI and Power Wealth HK shall be released upon Listing. In addition, the lenders have also provided in-principal consents to the release of the collateral including all the registered capital of Xiangyu PRC and 50% of the ownership of Kaijin No. 1 and Kaijin No. 3 before Listing. See "History, Reorganization and Corporation Structure — Pre-IPO Investments" for details.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at the close of business on April 30, 2011, our Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities. The Directors confirm that there has been no material change in our Company's indebtedness since April 30, 2011.

Gearing Ratio

The following table sets forth the gearing ratio for and as of the respective dates.

	As of December 31,		
	2008	2009	2010
Gearing ratio(1)	4.7%	7.1%	6.0%

(1) The ratio of total debt to total assets

The increase in our gearing ratio from December 31, 2008 to December 31, 2009 was primarily due to increased bank borrowings to fund our capital expenditures in connection with our continued capacity expansion. The decrease in our gearing ratio from December 31, 2009 to December 31, 2010 was primarily due to the capital injection by Mr. Liu in September 2010.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations and growth primarily with net cash generated from our operations and bank borrowings. As of December 31, 2010, we had RMB12.5 million in cash and cash equivalents, most of which were denominated in Renminbi. Our cash and cash equivalents primarily consist of cash on hand and bank balances. As of April 30, 2011, we had cash and cash equivalents of RMB15.2 million. Taking into account the net proceeds available to us from the Global Offering, cash and cash equivalents on hand and our operating cash flow, our Directors are of the opinion that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Net cash from operating activities	44,412	45,218	75,663
Net cash used in investing activities	(47,092)	(63,123)	(91,446)
Net cash from financing activities	1,988	18,696	26,539
Net increase/(decrease) in cash and cash equivalents	(692)	791	10,756
Cash and cash equivalents at the end of the period	973	1,764	12,520

During the Track Record Period, we maintained adequate working capital for our operations as cash and cash equivalents on hand and cash flows from operations were sufficient to meet our cash needs with minimal borrowing. In 2008, 2009 and 2010, we generated net cash from operating activities of RMB44.4 million, RMB45.2 million and RMB75.7 million, respectively, and as of December 31, 2008, 2009 and 2010, we had net current assets of RMB15.8 million, RMB95.7 million and RMB59.6 million, respectively. Although our gross profit margin decreased from 46.0% in 2008 to 35.7% in 2009, principally due to the increase in operating cost of our dredging projects in 2009, our gross profit margin increased to 45.4% in 2010, principally due to a significant decrease in subcontracting costs as we decreased the use of subcontractors by expanding our own dredging capacity, and an improvement of our average dredger working efficiency rate. While we expect our gross profit margin to decrease somewhat in future periods due to start-up costs relating to projects that started in late 2010 and early 2011 and other operating costs, we do not expect that this decrease will have any material adverse effect on our ability to maintain adequate working capital based on our expected cash and cash equivalents on hand and our operating cash flow. Similarly, our current ratio (the ratio of current assets to current liabilities) increased from 1.2 as of December 31, 2008 to 1.4 as of December 31, 2009, primarily due to an increase in trade receivables, but decreased to 1.3 as of December 31, 2010. Our current ratio was significantly but temporarily reduced in mid 2010 due to our purchase of two dredgers in the second quarter of 2010, which was financed by a short-term loan from our Director. Going forward we do not expect our current ratio to have any material adverse effect on our ability to maintain adequate working capital based on our expected cash and cash equivalents on hand and our operating cash flow. Furthermore, while our average trade receivable turnover days increased from 87 in 2008 to 146 and 210 in 2009 and 2010, respectively, our liquidity was not materially adversely affected as our average trade payable turnover days were comparable in the respective periods, at 102, 124 and 194 in 2008, 2009 and 2010, respectively and therefore, the timing of our cash inflows and outflows relating to operating activities was generally consistent in each of those years. Our liquidity has also been supported by our maintenance of a low gearing ratio (the percentage of total debt to total assets) of 4.7%, 7.1% and 6.0% in 2008, 2009 and 2010, respectively, which we believe represents a relatively low level of debt to service in comparison to the size of our Company. Since we do not have inventory, our ratio of current assets less stock to current liabilities, or quick ratio, was substantially the same as our current ratio during the Track Record Period and therefore did not impact on our liquidity.

Operating Activities

Net cash from operating activities reflects profit before income tax, adjusted for (i) non-cash items, including depreciation of property, plant and equipment, finance costs and bank interest income and (ii) effects of changes in working capital, including changes in rental deposits, changes in trade and other receivables and changes in trade and other payables.

We had a net cash inflow from operating activities of RMB75.7 million in 2010, primarily resulting from profit before income tax of RMB135.7 million, as adjusted by: (i) income statement items with non-cash effects of RMB15.2 million, (ii) an outflow of RMB46.1 million for working capital adjustments, and (iii) income tax paid of RMB29.1 million. Working capital adjustments generally included: (i) a decrease in rental deposits of RMB3.0 million, (ii) an increase in trade and other receivables of RMB50.2 million primarily due to an increase in revenue and (iii) an increase in trade and other payables of RMB1.1 million primarily due to an increase in operating cost as a result of the continued expansion of our dredging services business.

We had a net cash inflow from operating activities of RMB45.2 million in 2009, primarily resulting from profit before income tax of RMB122.0 million, as adjusted by: (i) income statement items with non-cash effects of RMB4.6 million, (ii) an outflow of RMB81.1 million for working capital adjustments, and (iii) income tax paid of RMB0.3 million. Working capital adjustments generally included: (i) an increase in rental deposits of RMB2.0 million, (ii) an increase in trade and other receivables of RMB164.5 million primarily due to an increase in revenue and (iii) an increase in trade and other payables of RMB85.5 million primarily due to increase in operating cost as a result of the continued expansion of our business.

We had a net cash inflow from operating activities of RMB44.4 million in 2008, primarily resulting from profit before income tax of RMB61.9 million, as adjusted by: (i) income statement items with non-cash effects of RMB3.1 million, (ii) an outflow of RMB20.5 million for working capital adjustments, and (iii) income tax paid of RMB0.1 million. Working capital adjustments generally included: (i) an increase in rental deposits of RMB1.0 million, (ii) an increase in trade and other receivables of RMB57.5 million primarily due to an increase in revenue and (iii) an increase in trade and other payables of RMB38.0 million primarily due to increase in operating cost as a result of the continued expansion of our business.

Investing Activities

Net cash used in investing activities primarily reflected purchases of property, plant and equipment, deposits paid for acquisition of property, plant and equipment and advances to a Director, offset by repayments from a Director and interests received.

Net cash used in investing activities in 2010 was RMB91.4 million, which was attributable to the following factors: (i) advances to a Director of RMB168.0 million and (ii) purchases of property, plant and equipment of RMB1.5 million, partially offset by repayment from a Director of RMB78.3 million.

Net cash used in investing activities in 2009 was RMB63.1 million, which was attributable to the following factors: (i) advances to a Director of RMB234.1 million, (ii) deposits paid for acquisition of property, plant and equipment of RMB9.8 million and (iii) purchases of property, plant and equipment of RMB0.4 million, partially offset by repayment from a Director of RMB181.2 million.

Net cash used in investing activities in 2008 was RMB47.0 million, which was attributable to the following factors: (i) advances to a Director of RMB138.3 million, (ii) deposits paid for acquisition of property, plant and equipment of RMB18.7 million and (iii) purchases of property, plant and equipment of RMB6.3 million, partially offset by repayment from a Director of RMB116.2 million.

Financing Activities

Net cash from financing activities primarily includes new bank borrowings, capital injection, advances from a Director, offset by repayments of secured bank borrowings, repayments to a Director and interests paid.

Net cash generated by financing activities in 2010 was RMB26.5 million, which was primarily attributable to (i) proceeds of RMB173.5 million from the issuance of shares by Power Wealth BVI; (ii) advances from a Director of RMB65.2 million and (iii) new bank borrowings of RMB40.0 million, partially offset by (i) repayment to a Director of RMB221.1 million; (ii) repayments of secured bank borrowings of RMB27.5 million and (iii) interests paid of RMB3.6 million.

Net cash generated by financing activities in 2009 was RMB18.7 million, which was primarily attributable to new bank borrowings of RMB27.5 million, partially offset by (i) repayments of secured bank borrowings of RMB7.5 million and (ii) interest paid of RMB1.3 million.

Net cash generated by financing activities in 2008 was RMB2.0 million, which was primarily attributable to the following factors: (i) new bank borrowings of RMB7.5 million, (ii) advances from a Director of RMB4.9 million and (iii) capital injection of RMB3.0 million, partially offset by (i) repayments of secured bank borrowings of RMB7.5 million and (ii) repayments to a Director of RMB5.1 million.

CAPITAL COMMITMENTS

We entered into a non-binding letter of intent to purchase one dredger in 2008. Deposits in connection with this non-binding letter of intent of RMB18.7 million and RMB28.5 million were recorded as at December 31, 2008 and 2009, respectively. We acquired this dredger in 2010. We had a capital commitment of RMB117,000 outstanding as of December 31, 2010 in respect of a leasehold improvement for the establishment of our office in Hong Kong.

OTHER COMMITMENTS

At the end of the respective reporting periods, we were committed to make the following minimum charter payments in respect of the chartered dredgers under the charter agreements, which fall due as follows:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Within one year	17,109	13,009	43,064
In the second to fifth year inclusive	2,310	13,200	—
Over five years	—	—	—
Total	19,419	26,209	43,064

At the end of the respective reporting periods, we were committed to make the following minimum payments in respect of our office premises under our non-cancellable operating leases, which fall due as follows:

	At of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Within one year	—	51	858
In the second to fifth year inclusive	—	204	832
Over five years	—	306	245
Total	—	561	1,935

At the end of the respective reporting periods, we subleased our chartered dredgers and leased some of our plant and machinery to third parties in return for the following future minimum lease payments:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Within one year	2,800	—	—
In the second to fifth year inclusive	—	—	—
Total	2,800	—	—

CAPITAL EXPENDITURES

We made capital expenditures of RMB27.1 million, RMB0.4 million and RMB347.5 million in the years ended December 31, 2008, 2009 and 2010, respectively. During the Track Record Period, our capital expenditures were used primarily to purchase equipment such as dredgers and ancillary equipment. We estimate that our capital expenditures in the year ending December 31, 2011 will be approximately RMB470 million, which are planned to be used primarily for the purchase of dredgers and dredging equipment. We plan to fund our capital expenditures for the year ending December 31, 2011 substantially with cash on hand, including the net proceeds from the Global Offering.

WORKING CAPITAL

The table below sets forth the details of our current assets and liabilities at the end of each reporting period:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Current Assets			
Trade and other receivables	65,707	230,249	280,440
Amount from a Director	29,216	82,121	—
Bank balances and cash	973	1,764	12,520
Total current assets	95,896	314,134	292,960
Current Liabilities			
Trade and other payables	44,536	130,009	127,678
Amount due to a Director	11,382	11,395	26,464
Tax payable	16,664	49,503	39,185
Secured bank borrowings	7,500	27,500	40,000
Total current liabilities	80,081	218,407	233,327
Net current assets	15,815	95,727	59,633

We had net current assets of RMB59.6 million as of December 31, 2010, as compared to our net current assets of RMB95.7 million as of December 31, 2009. The difference was primarily due to a decrease in amount due from a Director of RMB82.1 million, an increase in amount due to a Director of RMB15.1 million and an increase in secured bank borrowings of RMB12.5 million, partially offset by an increase in trade and other receivables of RMB50.2 million, an increase in bank balances and cash of RMB10.8 million and a decrease in tax payable of RMB10.3 million. The amount of RMB26.5 million due to a Director will be settled before the Listing.

Our net current assets increased from RMB15.8 million as of December 31, 2008 to RMB95.7 million as of December 31, 2009, primarily due to an increase in trade and other receivables of RMB164.5 million and an increase in amount from a Director of RMB52.9 million, partially offset by an increase in trade and other payables of RMB85.5 million and an increase of tax payable of RMB32.8 million.

As of April 30, 2011, we had net current assets of RM143.7 million. Our current assets of RMB462.2 million comprised of trade and other receivables of RMB447.0 million and bank balances and cash of RMB15.2 million, and our current liabilities of RMB318.5 million comprised of trade and other payables of RMB199.0 million, amount due to a Director of RMB13.5 million, tax payable of RMB66.0 million and bank borrowings of RMB40 million. There was an increase of RMB84.1 million from our net current assets of RMB59.6 million as of December 31, 2010. This increase was principally driven by increases in trade and other receivables and partly offset by increases in trade and other payables and tax payable.

Taking into account the net proceeds available to us from the Global Offering, cash and cash equivalents on hand and our operating cash flow, our Directors are of the opinion that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus. Our future cash requirements will depend on many factors, including our operating income, costs to purchase or lease additional dredgers, market acceptance of our products and services or other changing business conditions and future developments, including any investments or acquisitions we may decide to pursue. We may require additional cash to repay existing debt obligations or to re-finance our existing debts or due to changing business conditions or other future developments. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from lending institutions. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our Shareholders' interests in our Company. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our Shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer. For additional details of the risks and uncertainties relating to our working capital, see "Risk Factors — Risks Relating to Our Industry and Our Business — We commit to pay significant costs before receiving payment from our customers and if we are unable to collect our accounts receivable or suffer impairment losses, our liquidity, financial condition and results of operation may be materially and adversely affected" and "Risk Factors — Risks Relating to Our Industry and Our Business — We require substantial amounts of capital for our operation and expansion".

ANALYSIS OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

Trade and Other Receivables Analysis

The following table sets forth our trade and other receivables at the end of each period indicated:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Trade receivables	60,681	215,703	216,084
Less: Allowance on trade receivables	—	—	—
	60,681	215,703	216,084
Bills receivable	—	—	42,000
Deposits, prepayments and other receivables			
Rental deposits for chartered dredgers with short term leases	3,000	1,000	2,073
Rental receivables	1,400	500	300
Retention receivables	609	9,317	6,224
Deposits and prepayments	17	2,524	12,431
Others	—	1,205	1,328
	5,026	14,546	22,356
Total	65,707	230,249	280,440

Certain of our contracts with our customers contain a retention clause pursuant to which our customers withhold a portion of the value of the work performed each month, for example 5%, for a retention period of typically about one year after the completion of our work under the relevant contract in order to cover any defects in the quality of our work. We recognize this portion of our revenue and the corresponding retention receivables when we have completed substantial work under the relevant contract in the later stage of the relevant project. The following table sets forth the movement of our retention receivables during the Track Record Period.

	2008	2009	2010
	(in thousands of RMB)		
Opening balance as of January 1	—	609	9,317
Additional retention receivables	609	8,708	1,797
Settlement of retention receivables	—	—	(4,890)
Ending balance as of December 31	609	9,317	6,224

Our trade and other receivables represent receivables from our customers for the provision of our services, bills receivable and deposits, prepayments and other receivables. As of December 31, 2008, 2009 and 2010, our trade and other receivables amounted to RMB65.7 million, RMB230.2 million and RMB280.4 million, respectively. The year-on-year increases were primarily due to the increases in revenue from our dredging business each year. The RMB280.4 million of trade and other receivables for 2010 was also due to the revenue we recognized in this period and the bills receivable we recognized at the end of 2010 as a result of our receipt of bank acceptance bills from certain of our customers. Our total revenue amounted to RMB133.3 million, RMB346.5 million and RMB374.9 million in 2008, 2009 and2010, respectively. Of our total revenue, revenue from our dredging business accounted for 73.3%, 83.1% and 96.8% of our total revenue in 2008, 2009 and 2010, respectively. Of the RMB216.1 million trade receivables outstanding as of December 31, 2010, RMB107.5 million had been received as of April 30, 2011.

Our bills receivable increased from nil as of December 31, 2009 to RMB42.0 million as of December 31, 2010 primarily due to our receipt of bank acceptance bills from certain of our customers. Our deposits and prepayments increased from RMB2.5 million as of December 31, 2009 to RMB12.4 million as of December 31, 2010. The increase in our deposits and prepayments was primarily due to an increase in prepayment for purchases of pipes of RMB7.0 million and deposits paid for spare parts of RMB0.6 million.

The following table sets forth our trade receivables turnover days for the Track Record Period:

	Year ended December 31,		
	2008	2009	2010
Trade receivables turnover days[1]	87	146	210

(1) Trade receivables turnover days are equal to the average balance of trade receivables at the beginning and the end of the relevant year divided by revenue for such year and multiplied by 365.

Our trade receivables turnover days increased from 87 days in 2008 to 146 days in 2009 and further to 210 days in 2010.

We recognize revenue from our dredging and dredging-related construction services when the services are rendered. In terms of payment, however, most of our contracts require our customers to make monthly progress payments with reference to the value of work completed at a certain percentage (typically 70% to 80%) of the value of work completed in the previous month, within thirty days after we issue a monthly progress certificate to the customer specifying the value of work completed during the relevant month. According to these contracts, the remaining balance, which is typically 20% to 30% of the value of work completed or less under contracts that have retention clauses, is to be paid by our customers within thirty to sixty days after completion of the project audit work on completed projects, during which time the project owner checks the quality of the completed work. Therefore, until such tail period following the completion of the project and the project audit work concludes and we collect the remaining portion (for example, 20% to 30%, or less under contracts that have retention clauses) of the value of work we performed, this amount remains as trade receivables on our combined statement of financial position. This arrangement causes us to accumulate trade receivable balances for projects that have reached later stages but have not yet been completed.

The increase in our trade receivables turnover days was due in part to the expansion of our business in 2009, and particularly in the fourth quarter of 2009. As we recognized a greater amount of revenue near the end of 2009, our outstanding balance of trade receivables also increased. In addition, since our customers are typically not obligated to pay us the remaining portion (for example, 20%–30%, or less under contracts with retention clauses) of the value of the work we perform each month until 30 to 60 days after the close of the project audit work on completed projects, and because a large amount of our projects in 2009 had reached a mature stage but were not yet completed by year-end, this remaining balance was greater in 2009, and particularly at the end of 2009, than in 2008. In addition, late payments by our customers also contributed to our increased trade receivables turnover days in 2009.

In 2010 we had a stable balance of trade receivables at both the beginning and end of the year, in contrast to 2009 in which we had a relatively low balance at the beginning of the year and a relatively high balance at year-end. This caused our trade receivables turnover days to be higher in 2010 than in 2009. Our stable balance of trade receivables in 2010 was due in part to the continued expansion of our business. We entered into six new major contracts in 2010 that had duration terms which extended past year-end. Since our customers are typically not obligated to pay us the remaining portion (for example, 20% to 30%, or less under contracts with retention clauses) of the value of the work we perform each month until 30 to 60 days after the close of the project audit work on completed projects, this accumulated portion of the value of work we performed in 2010 contributed to our balance of trade receivables at the end of the year. In addition, late payments by our customers also contributed to our continued high balance of trade receivables at the end of 2010. As of April 30, 2011, RMB20.7 million of our trade receivables that were overdue as of December 31, 2010 had been settled.

The following table sets out the aged analysis of our trade receivables, net of allowance on trade receivables, as of December 31, 2008, 2009 and 2010, respectively:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
0–30 days	21,683	91,015	65,036
31–60 days	2,385	33,154	32,045
61–90 days	10,818	17,231	21,844
91–180 days	21,758	50,682	62,552
Over 180 days	4,037	23,621	34,607
	60,681	215,703	216,084

The following table sets out the aged analysis of our trade receivables, net of allowance on trade receivables, that were past due but not impaired as of December 31, 2008, 2009 and 2010, respectively:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
0–30 days	17,917	47,466	13,722
31–60 days	2,295	27,828	4,065
61–90 days	10,147	14,962	81
91–180 days	14,400	27,660	84
Over 180 days	1,282	19,682	10,280
	46,041	137,598	28,232

Our customers are typically state-owned enterprises and governmental entities, which we believe do not represent a credit risk. We believe that late payments from customers were partly due to late payments to certain of our customers by the relevant project owners, which are also generally state-owned enterprises and government entities. These late payments by project owners were due in part to the complicated internal approval procedures for government entities and state-owned enterprises, such as audits and approvals by the relevant government authorities. We do not expect the gradual tightening of liquidity in the PRC to increase the risk of non-recoverability of our accounts receivable from our customers. Most of our projects are national or regional infrastructure development projects, the owners of which are typically state-owned enterprises and government entities. We believe these entities have high historical credit ratings and would not generally be affected by a tightening of liquidity. We believe that our projects in the Caofeidian Industrial Area and Dalian Changxingdao Harbor have already begun to generate strong cash flow, and we therefore do not expect payment under the related contracts to rely on bank funding. Moreover, the reclamation dredging of certain other projects, such as those in Tianjin Port and Yancheng City, will increase land availability in these cities, and we expect that the premium to be obtained by the relevant government from the transfer of such land will be sufficient to make payments under our contracts. During the Track Record Period and up to the Latest Practicable Date, we did not have any disputes with our customers regarding their late payments.

We have undertaken measures aimed at reducing our trade receivables turnover days. Before accepting any new customer, we assess the potential customer's credit quality and define its credit limits based on the reputation of the customer within the industry. We regularly review our customers' payment history. We also review the aging of our trade receivables on a regular basis. In addition, our project managers closely monitor the status of payment by our customers.

We did not record any bad debt in the Track Record Period. Our accounts receivable increased from RMB215.7 million as of December 31, 2009 to RMB216.1 million as of December 31, 2010. We believe our credit control policy is appropriate.

We consider the amount that a trade debtor did not pay on schedule pursuant to its agreement with us to be past due. As of December 31, 2008, 2009 and 2010, the amounts past due of our trade receivables were RMB46.0 million, RMB137.6 million and RMB28.2 million, accounting for 75.1%, 61.1% and 12.7% of our total trade receivables and retention receivables, respectively. The amounts past due of our trade receivables were primarily due to increases in revenue in the relevant period and late payments by our customers. In addition, we believe that late payments to us were due to late payments to certain of our customers by the relevant project owners. As these customers are state-owned, we do not believe the extension of credit terms has significantly increased our credit risk with regard to these customers. We review the aging of trade receivables on a regular basis. As of the Latest Practicable Date, our management considers that no impairment loss needs to be recognized for our trade receivables which were past due during the Track Record Period in view of the financial background of these customers and their historical track record of payments.

Trade and Other Payables Analysis

Our trade and other payables primarily consist of trade payables to suppliers, other payables and accruals, receipts in advance, and payables for acquisition of property, plant and equipment. All of our trade and other payables are expected to be settled or recognized as income within one year or are payable on demand. Our suppliers generally granted us credit terms ranging from 30 to 90 days during the Track Record Period. With respect to transactions with our subcontractors, we are typically required to make monthly progress payments to our subcontractors at a rate of 70% to 80% of the value of work they completed in the previous month, within thirty days after a progress certificate for such month has been issued. The remaining balance, which is typically 20% to 30% of the value of work completed, is normally required to be paid by us within thirty to sixty days after the project is completed and accepted by us and after the project owner has completed its audit work.

Our trade and other payables decreased from RMB130.0 million as of December 31, 2009 to RMB127.7 million as of December 31, 2010, primarily due to a decrease in our use of subcontractors and settlement of trade payables. Our trade and other payables increased from RMB44.5 million as of December 31, 2008 to RMB130.0 million as of December 31, 2009, primarily due to increases in our operating cost as a result of growth in our revenue.

The following table sets forth our trade payables turnover days at the end of each reporting period:

	As of December 31,		
	2008	2009	2010
Trade payables turnover days(1)	102	124	194

(1) Trade payables turnover days is calculated using the average balance of trade payables divided by operating cost for the relevant year and multiplied by 365 days.

Our trade payables turnover days in 2008 and 2009 remained relatively stable. Our trade payables turnover days increased from 2009 to 2010 primarily due to an increase in operating cost as a result of the continued expansion of our dredging services business.

The following table sets out the aged analysis of our trade payables as of December 31, 2008, 2009 and 2010, respectively:

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
0–30 days	4,043	47,531	22,730
31–60 days	2,547	13,809	13,042
61–90 days	5,478	14,631	11,081
91–180 days	15,945	22,842	16,507
Over 180 days	9,857	15,294	39,746
Total	37,870	114,107	103,106

Depreciation of Plant and Equipment

We recognize depreciation of property, plant and equipment primarily with respect to our dredgers, plant and machinery and motor vehicles. Depreciation is charged so as to write off the cost of such assets over their estimated useful lives using the straight line method, after taking into account their estimated residual values (if any). The estimated useful lives of each of our dredgers, plant and machinery and motor vehicles were 15 to 20 years, 15 years and 5 to 10 years, respectively, during the Track Record Period. The following table sets forth the depreciation that we recognized with respect to our dredgers, plant and machinery and motor vehicles during the Track Record Period.

Depreciation	Dredgers	Plant and machinery	Motor vehicles
	(in thousands of RMB)		
At January 1, 2008	—	445	9
Provided for the year	878	990	286
At December 31, 2008	878	1,435	295
Provided for the year	1,621	1,008	572
At December 31, 2009	2,499	2,443	867
Provided for the year	9,789	1,020	702
At December 31, 2010	12,288	3,463	1,569

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. We also have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners' equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

FINANCIAL RISKS

We are exposed to various types of market risks, including commodity price risks, credit risks, interest rate risks, foreign exchange risks and inflation risks in the normal course of business.

Commodity price risk

We are exposed to price fluctuations for materials, particularly fuel, which represented 25.7%, 12.1% and 29.8% of our operating cost in the years ended December 31, 2008, 2009 and 2010, respectively. Fluctuations in the prices of fuel and other materials have a significant effect on our results of operations. We do not engage in hedging activities designed or intended to hedge against fluctuations in the price of fuel or other materials. Moreover, we have not entered into any long-term contracts for fuel or other materials.

Credit risk

At the end of each reporting period, our maximum exposure to credit risk which would cause a financial loss to us due to failure by a counterparty to discharge an obligation arose from (i) the carrying amount of the respective recognized financial assets as stated in the combined statements of financial position; and (ii) the amount of contingent liability in relation to the financial guarantee issued by our Group.

In order to minimize our credit risk, our management has assigned a team to be responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade debt and amount due from a Director at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk on receivables is significantly reduced.

Our total trade and retention receivables due from our five largest customers accounted for 99.0%, 96.2% and 97.3% of total trade receivables as of December 31, 2008, 2009 and 2010, respectively, presenting a concentration credit risk to us.

The amount due from a Director as of December 31, 2008, 2009 and 2010 also presents a concentration credit risk to us. We assessed such credit risk by reviewing the historical and subsequent payments from the Director during the Track Record Period and consider the default risk on the amount due from a Director to not be significant.

We believe that our credit risk on liquid funds is limited because our counterparties are banks with high credit ratings assigned by international credit-rating agencies.

We believe our credit risk on the financial guarantee given to a third party is limited because our management regularly communicates with the third party on its financial performance and reconsiders the continuity of the given guarantee.

Interest rate risk

We are exposed to cash flow interest rate risk in relation to variable-rate bank borrowings balances. We currently do not have an interest rate hedging policy. However, our management monitors our interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Our cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from our bank borrowings. Our exposures to interest rates on financial liabilities are detailed in the following table.

	Weighted average effective interest rate	Carrying amount
		RMB (in thousands)
As at December 31, 2008		
Non-derivative financial liabilities		
Trade and other payables	—	37,870
Amount due to a Director		11,382
Secured bank borrowings — variable rate	7.99%	7,500
		56,752
As at December 31, 2009		
Non-derivative financial liabilities		
Trade and other payables	—	114,107
Amount due to a Director		11,395
Secured bank borrowings — variable rate	6.37%	27,500
		153,002
As at December 31, 2010		
Non-derivative financial liabilities		
Trade and other payables	—	103,106
Amount due to a Director		26,464
Secured bank borrowings — variable rate	5.09%	40,000
		169,570

Foreign exchange risk

All of our sales, our costs and expenses and borrowings are currently denominated in Renminbi. Therefore, we believe that we are not exposed to foreign exchange risk.

Inflation risk

In 2008 and 2009, the Customer Price Index in China was 5.9% and –0.7% respectively, according to the PRC National Bureau of Statistics. Our Directors are of the view that inflation has not had a material effect on our results of operations.

PROFIT FORECAST FOR THE SIX MONTHS ENDING JUNE 30, 2011

The Directors believe that, in the absence of unforeseen circumstances and on the basis of the assumptions as set out in "Appendix III — Profit Forecast" to this prospectus, our Company's profit attributable to owners of our Company for the six months ending June 30, 2011 is unlikely to be less than RMB94 million. On the basis of the prospective financial information and the assumption that our Company had been listed since January 1, 2011 and a total of 800,000,000 Shares were issued and outstanding during the entire period, the pro forma forecast earnings per Share for the six months ending June 30, 2011 is unlikely to be less than RMB0.12.

The Directors expect our revenue in the six months ended June 30, 2011 to increase as compared to our revenue in the six months ended June 30, 2010 due to the expansion of our business and an increase in our number of projects in the first half of 2011. Notwithstanding the expected increase in our revenue, our gross profit margin in the six months ending June 30, 2011 is expected to decrease as compared with that in the six months ended June 30, 2010 as a result of (a) start-up costs related to our work on projects that newly started in late 2010 or early 2011; (b) the prudent output level we have forecasted to safely buffer for any uncertainties in these newly started projects; and (c) the higher operating costs we have budgeted for in the six months ending June 30, 2011.

We have declared to the Stock Exchange that the interim report of our Group for the six months ending June 30, 2011 will be audited pursuant to Rule 11.18 of the Listing Rules.

DIVIDEND POLICY

We may distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. The Board will review our dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- our result of operations;
- our cash flows;
- our financial condition;
- our Shareholders' interests;

- general business conditions and strategies;
- our capital requirements;
- the payment by our subsidiaries of cash dividends to us; and
- other factors the Board may deem relevant.

We are a holding company incorporated in the Cayman Islands and our ability to pay dividends depends substantially on the payment of dividends to us by our subsidiaries in China. In particular, our PRC subsidiaries may pay dividends only out of their accumulated distributable profits, if any, determined in accordance with its articles of association, and the accounting standards and regulations in China. Moreover, pursuant to relevant PRC laws and regulations applicable to our subsidiary in the PRC, our PRC subsidiary is required to set aside a certain amount of its accumulated after tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends. Furthermore, if any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to us.

Except as mentioned in the following paragraph, we currently intend to adopt, after our Listing, a general annual dividend policy of declaring and paying dividends on an annual basis of no more than 20% of our distributable net profit attributable to our Group for any particular financial year.

We launched a number of new projects in the year ended December 31, 2010, and we made capital expenditures of RMB347.5 million in this period. We estimate that our capital expenditures in the year ending December 31, 2011 will be approximately RMB470 million, which will be used primarily for the acquisition of dredgers and dredging equipment. For the above reasons, it is unlikely that we will recommend the declaration of any annual dividend at the coming annual general meeting of our Company for considering and approving our audited accounts for the financial year ended December 31, 2010.

DISTRIBUTABLE RESERVES

As of December 31, 2010, our Company had no reserves available for distribution to the shareholders.

Our Group's reserves as of December 31, 2010 consisted of PRC statutory reserves of RMB13.5 million, other reserves of RMB22,000, share premium of RMB173.5 million and retained profits of RMB209.7 million.

PROPERTY INTEREST AND PROPERTY VALUATION

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interest as of April 30, 2011 and is of the opinion that the aggregate value of our property interests is HK$7.0 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV to this prospectus.

Disclosure of the reconciliation of the property interests and the valuation of such property interests as required under Rule 5.07 of the Listing Rules is set out below:

	RMB (in thousands)
Net book value of property interests as at December 31, 2010 (audited)	3,952
Add: Addition for the months ended April 30, 2011	—
Less: Depreciation and amortization for the months ended April 30, 2011	(28)
Net book value as of April 30, 2011 (unaudited)	3,924
Add: Valuation surplus as of April 30, 2011	1,964
Valuation as of April 30, 2011 as per Appendix IV to this prospectus	5,888

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there had been no material adverse change in our financial or trading position or prospects since December 31, 2010 and there has been no event since December 31, 2010 that would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.