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## INDUSTRY AND REGULATORY OVERVIEW

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*Unless otherwise indicated, the information in the section below has been derived, in part, from various official government publications. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sponsor, the Bookrunner, the Lead Manager, the Underwriters, any of their respective directors, officers or representatives, or any other party involved in the Share Offer and no representation is given as to its accuracy.*

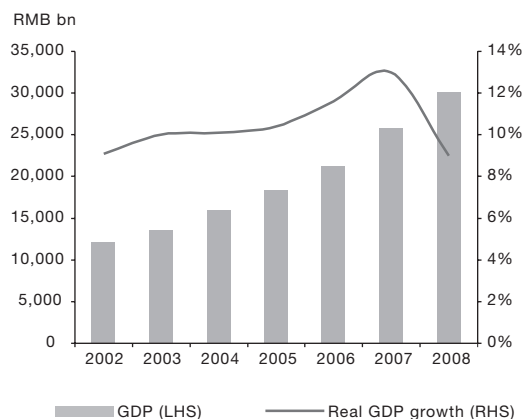
### INDUSTRY OVERVIEW

#### 1. THE ECONOMY OF CHINA AND HUNAN PROVINCE

Hunan, strategically located in central China with connectivity to all directions, is a major resources and product interchange centre and transport hub in China. According to “Opinions of the CPC Central Committee and the State Council on the Promotion of the Rise of the Central Region” (Zhong Fa No.10 (2006)) (《中共中央國務院關於促進中部地區崛起的若干意見》(中發[2006]10號)), by carrying out strategies to promote the rise of the central region, the State clearly requested to develop the central region of China into major “three bases and one hub” of the country, namely stable food production base, energy and raw materials base, high-tech industry and modern equipment manufacturing base, and integrated transport hub. At the same time, according to “the Notice by the National Development and Reform Commission on Approving Wuhan City Circle and Changsha, Zhuzhou and Xiangtan Urban Agglomeration to be the Country’s Energy-saving and Environmentally Friendly Pilot Area of Comprehensive Coordinated Reform on Social Construction”, the [2007]3428 Fa Gai Jing Ti document (發改經體[2007]3428號《國家發展改革委關於批准武漢城市圈和長株潭城市群為全國資源節約型和環境友好型社會建設綜合配套改革試驗區的通知》) issued by the National Development and Reform Commission (“NDRC”), the State Council approved the development of Changsha, Zhuzhou and Xiangtan Urban Agglomeration into the country’s energy-saving and environmentally friendly pilot area of comprehensive coordinated reform on social construction. According to CEIC, the gross domestic product (“GDP”) of Hunan Province was approximately RMB1,115.7 billion in 2008. In real terms, the GDP of Hunan Province grew at a rate of approximately 12.8% in 2008, as compared to 14.5% in 2007. The rapid growing district economy created a favourable operating environment for the enterprises in the area.

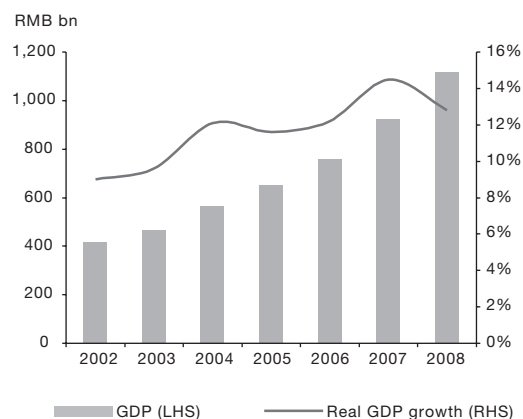
# INDUSTRY AND REGULATORY OVERVIEW

### Growth of Real GDP of China



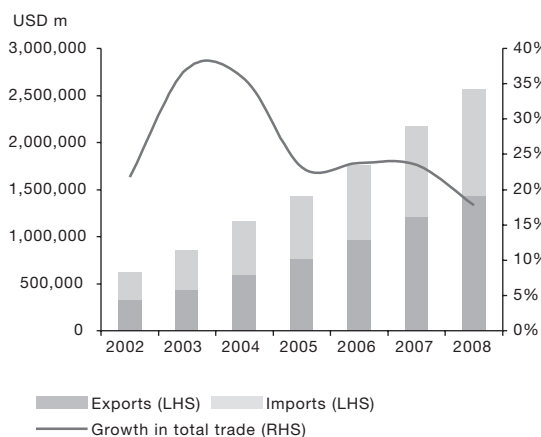
Sources: CEIC

### Growth of Real GDP of Hunan Province



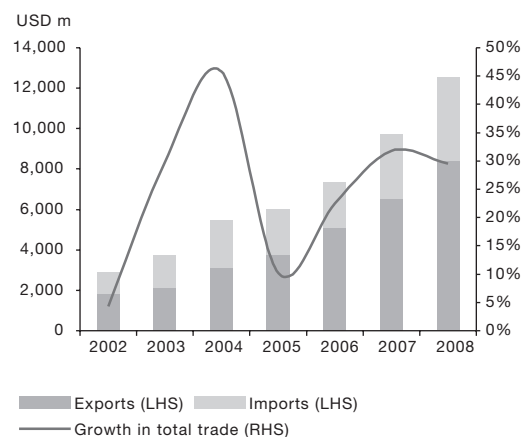
Sources: CEIC

### Import/Export of China



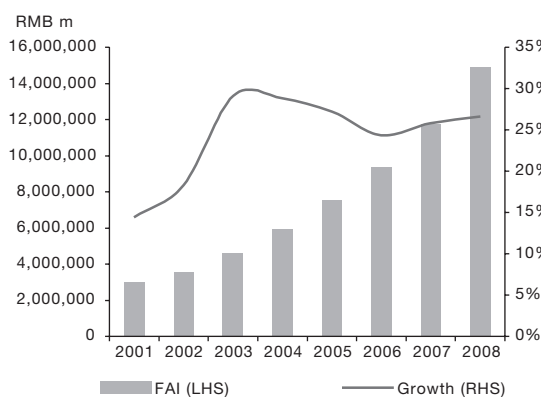
Sources: CEIC

### Import/Export of Hunan Province



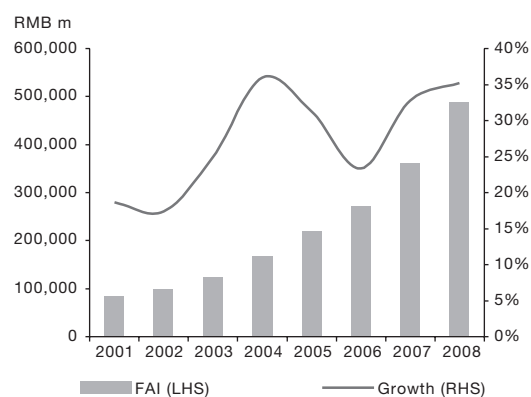
Sources: CEIC

### Fixed Asset Investment (“FAI”) in China



Sources: CEIC

### FAI in Hunan Province



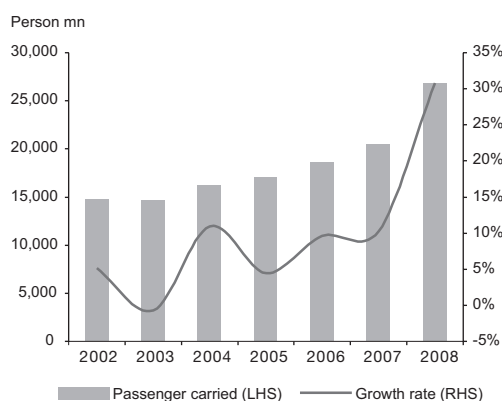
Sources: CEIC

## INDUSTRY AND REGULATORY OVERVIEW

### 2. THE PASSENGER AND CARGO THROUGHPUT BY ROAD TRAFFIC IN CHINA AND HUNAN PROVINCE

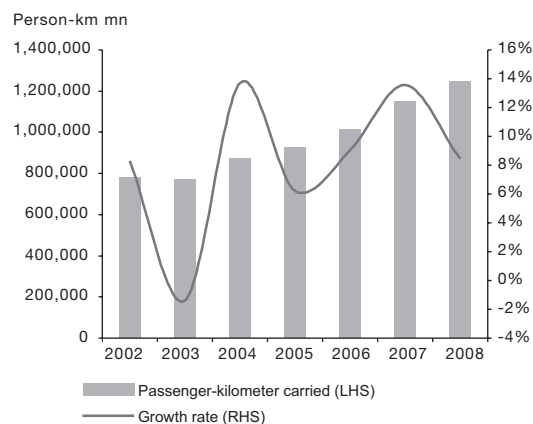
The cargo throughput by road traffic (社會公路貨運量) is the key driver for the development of expressways. According to CEIC, the cargo throughput by road traffic (貨物發送量) in Hunan Province reached approximately 987.6 million tonnes in 2008, representing an increase of approximately 15.6% over that of last year; and the passenger throughput by road traffic (旅客發送量) reached approximately 1.24 billion persons in 2008, representing an increase of approximately 6.4% over that of last year. The snowstorm in 2008 had certain adverse impact on the passenger and cargo throughput by road traffic.

**Passenger Throughput in China**



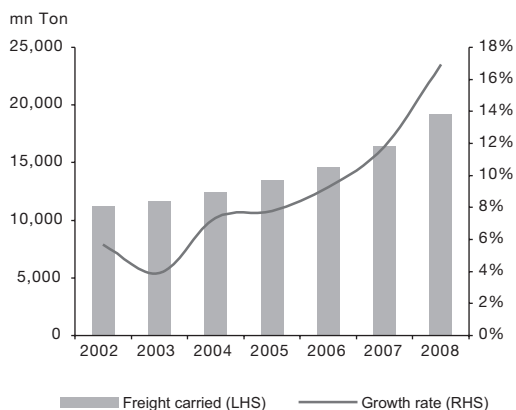
Sources: CEIC

**Passenger Turnover in China**



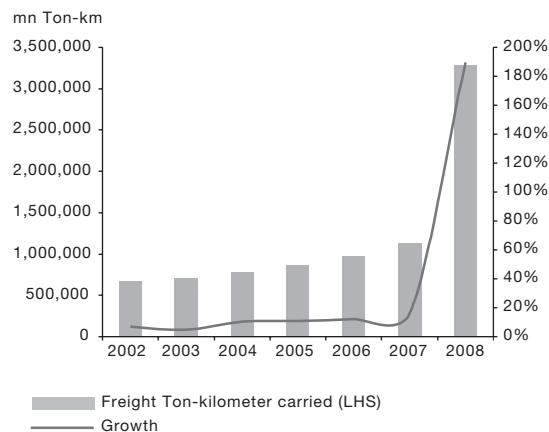
Sources: CEIC

**Cargo Throughput in China**



Sources: CEIC

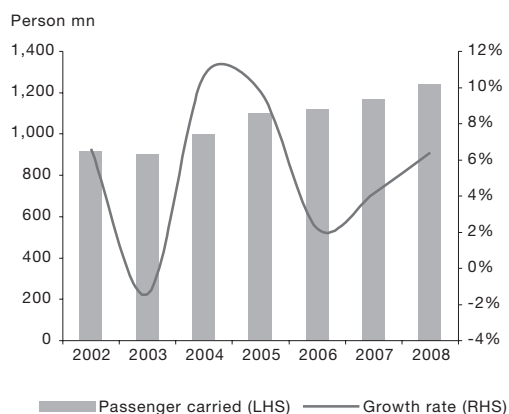
**Cargo Turnover in China**



Sources: CEIC

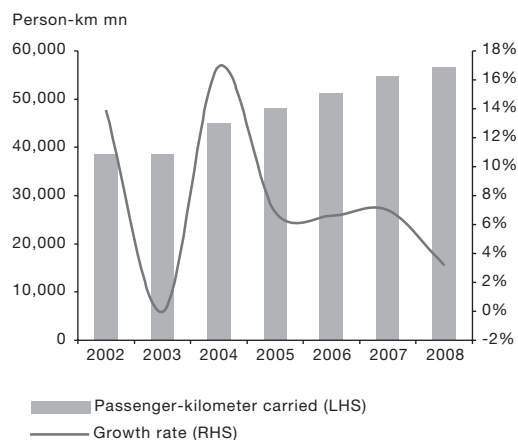
# INDUSTRY AND REGULATORY OVERVIEW

## Passenger Throughput in Hunan Province



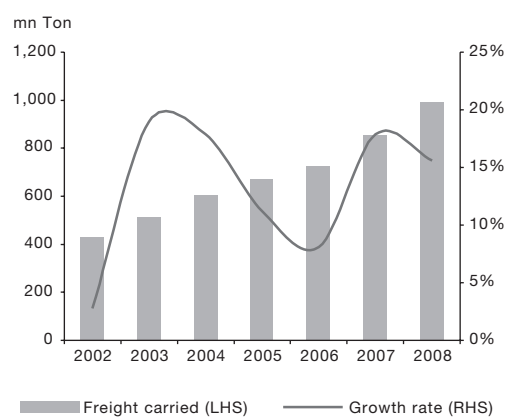
Sources: CEIC

## Passenger Turnover in Hunan Province



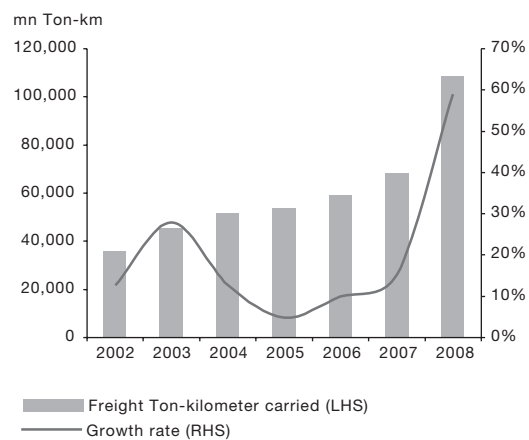
Sources: CEIC

## Cargo Throughput in Hunan Province



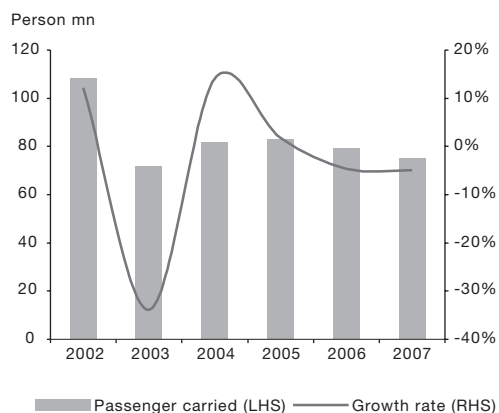
Sources: CEIC

## Cargo Turnover in Hunan Province



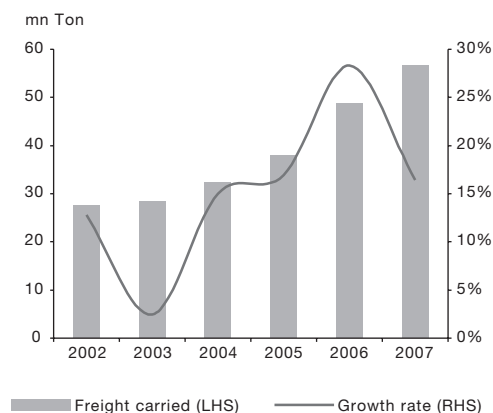
Sources: CEIC

## Passenger Throughput in Yueyang



Sources: CEIC

## Cargo Throughput in Yueyang



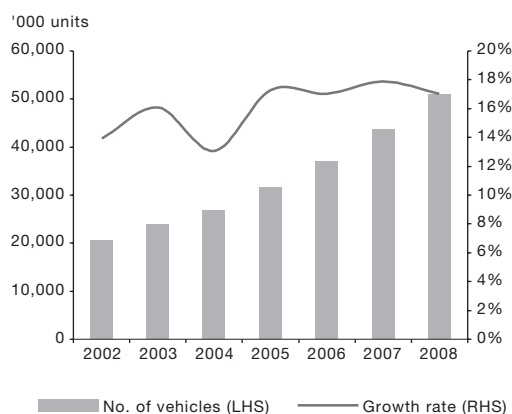
Sources: CEIC

## INDUSTRY AND REGULATORY OVERVIEW

### 3. THE VOLUME OF POSSESSION OF MOTOR VEHICLES IN CHINA AND HUNAN PROVINCE

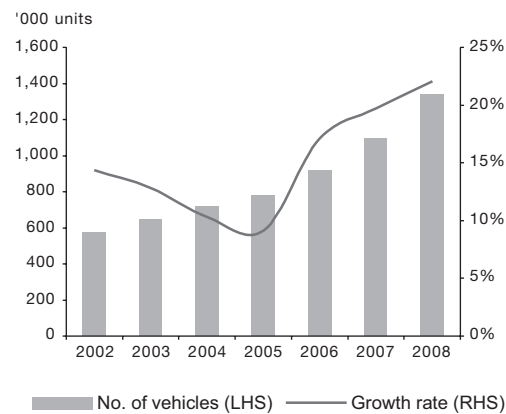
The volume of possession of civil motor vehicles (民用車輛擁有量) in Hunan Province sustained continuous growth with sustained and rapid growth of national economy in the province. According to CEIC, as at the end of 2008, the volume of possession of civil motor vehicles in Hunan Province reached approximately 1.34 million, representing an increase of approximately 22.0% over 2007, which was higher than that of 17.0% in the country, and a year-on-year increase of approximately 242,000 in volume. Similarly, in 2008, the volume of possession of private motor vehicles (私人車輛擁有量) in Hunan Province reached approximately 936,000, representing an increase of 26.2% over 2007, which was higher than that of 21.7% in the country, and a year-on-year increase of approximately 194,000 in volume. The substantial increase in the volume of possession of motor vehicles laid the foundation for the growth in motor vehicles passage revenue in Hunan Province.

**Volume of Possession of Civil Motor Vehicles in China**



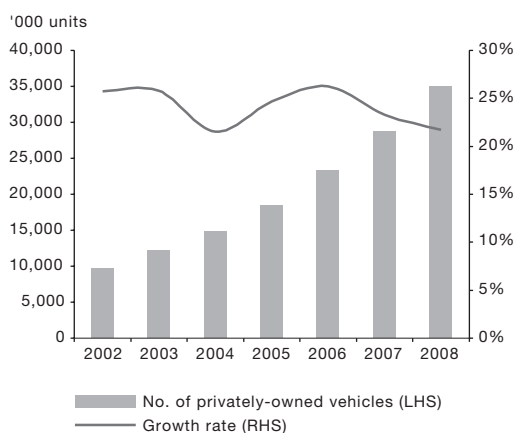
Sources: CEIC

**Volume of Possession of Civil Motor Vehicles in Hunan Province**



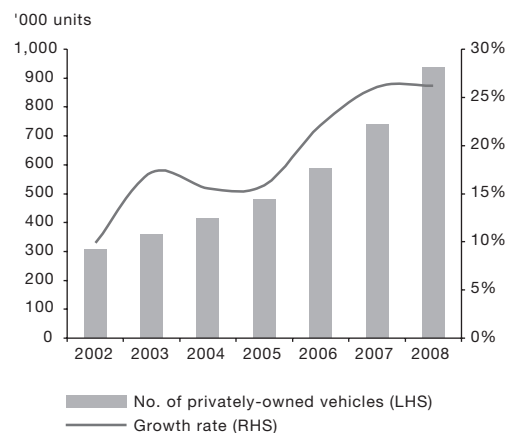
Sources: CEIC

**Volume of Possession of Private Motor Vehicles in China**



Sources: CEIC

**Volume of Possession of Private Motor Vehicles in Hunan Province**



Sources: CEIC

### 4. THE CLASSIFICATION OF HIGHWAY IN CHINA

According to “Technical Standards on Highway Engineering” (《公路工程技術標準》) (JTG B01-2003) issued by the MOC, highways are categorised in the following five classes based on their functions and accommodated transport volumes:

1. Expressway: a bi-directional, divided multi-lane road with full access control for vehicles. A four-lane expressway should accommodate a transport volume of between 25,000 to 55,000 cars (converted from various motor vehicles) per day on average throughout the year; a six-lane expressway should accommodate a transport volume of between 45,000 to 80,000 cars (converted from various motor vehicles) per day on average throughout the year; and a eight-lane expressway should accommodate a transport volume of between 60,000 to 100,000 cars (converted from various motor vehicles) per day on average throughout the year.
2. Class I Road: a bi-directional, divided multi-lane road with access control depending on the needs for vehicles. A four-lane class I road should accommodate a transport volume of between 15,000 to 30,000 cars (converted from various motor vehicles) per day on average throughout the year; and a six-lane class I road should accommodate a transport volume of between 25,000 to 55,000 cars (converted from various motor vehicles) per day on average throughout the year.
3. Class II Road: a two-lane road for vehicles. A two-lane class II road should accommodate a transport volume of between 5,000 to 15,000 cars (converted from various motor vehicles) per day on average throughout the year.
4. Class III Road: a two-lane road mainly for vehicles. A two-lane class III road should accommodate a transport volume of between 2,000 to 6,000 cars (converted from various motor vehicles) per day on average throughout the year.
5. Class IV Road: a two-lane or single-lane road mainly for vehicles. A class IV road should accommodate a transport volume of not more than 2,000 cars (converted from various motor vehicles) with respect to two-lane road and not more than 400 cars (converted from various motor vehicles) with respect to single-lane road per day on average throughout the year.

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### 5. HIGHWAY CONSTRUCTION IN CHINA AND HUNAN PROVINCE

According to “Highway and Waterway Transport ‘Eleventh Five-Year’ Development Planning”, by 2010 (《公路水路交通「十一五」發展規劃》), the framework of the state expressway network will be substantially formed with further improvement in technology on state and provincial trunk roads and the substantial completion of 8 inter-provincial highway passages in the western development zone.

The target for development during the Eleventh-Five Year period is to speed up the construction of the state expressway network with a focus on a total of 14 routes under planning, five of which are radiated from Beijing to Shanghai, from Beijing to Taipei (excluding the Taiwan Strait passage), from Beijing to Hong Kong and Macau, from Beijing to Harbin, and from Beijing to Kunming; two are vertical from Shenyang to Haikou (excluding Qiongzhou Strait passage) and from Baotou to Maoming; seven are horizontal from Qingdao to Yinchuan, from Nanjing to Luoyang, from Shanghai to Xi’an (excluding the Yangtze River passage from Chongming to Qidong), from Shanghai to Chongqing, from Shanghai to Kunming, from Fuzhou to Yinchuan, and from Guangzhou to Kunming. The expressway network in the eastern region will substantially be formed with comprehensive inter-city expressway network formed in the Yangtze River Delta, the Pearl River Delta, and Beijing-Tianjin-Hebei area; a comprehensive trunk road network will substantially be completed in the central region with connection of expressway passages linking east, west, north and south; breakthrough will be achieved for construction of highways in the western region, linking the region to the outside and reaching rivers and seas. Besides, the expansion and transformation of highways with heavy traffic built earlier will be speeded up.

#### Projection of “Eleventh Five-Year” Highway Transport Demand

Indicator	Unit	2005	2010	Average annual growth rate(%)
passenger throughput	billion persons	17.0	24	7.1
passenger turnover	billion person-km	929.2	1500	10.1
cargo throughput	billion tonnes	13.4	16	3.6
cargo turnover	billion tonnes-km	869.3	1200	6.7

Sources: “Highway and Waterway Transport ‘Eleventh Five-Year’ Development Planning”

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### Targets for “Eleventh Five-Year” Highway Construction

Indicator	Unit	2005	2010	Increase during the “Eleventh Five- Year” period
Total mileage of highway networks	thousand miles	1930	2300	37
Expressway mileage Class II or above	thousand miles	41	65	2.4
roads mileage	thousand miles	326	450	12.4
County and village highways	thousand miles	1476	1800	32.4

*Sources: “Highway and Waterway Transport ‘Eleventh Five-Year’ Development Planning”*

As regards the central region in China, the focus will be on reinforcing expressways, Yangtze Golden Waterway and other main passages and hubs and the development of transport in the central region will be speeded up based on the philosophy of “reinforced passages, comprehensive networks, highlighted hubs and attention on services”. The priority is given to construction of state expressways which connect the eastern, central and western regions, link provincial and regional central cities, and stretches to major transport hubs and energy production bases and key tourist attractions.

As regards Hunan Province, during the “Eleventh Five-Year” period, the total planned construction of state and provincial trunk roads in the province (excluding expressways) is 6,968km (6,000km is confirmed completed with an investment of RMB29.2 billion), of which 232km is class I roads, 5,743km class II roads, 930km class III roads, 63km class IV roads, and newly built bridges of 18,958 extended metres. The total investment in the planned construction is RMB32.5 billion.

According to the “Eleventh Five-Year Plan on Reconstruction of National and Provincial Trunk Highways in Hunan Province” (湖南省“十一五”國省幹線公路改建規劃), by the end of 2010, the total mileage of state and provincial trunk roads in Hunan Province is projected to reach 16,180 km, of which 3,500 km is expressways, 460 km class I roads, 9,845 km class II roads, 1,000 km class III roads, 1,135 km class IV roads, and 240 km other roads. The proportion of state and provincial trunk roads which are class II roads and above is expected to increase from approximately 46.9% at the end of 2005 to approximately 85.3%, and counties (cities, districts) in the province are expected to be connected by class II or above roads.



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The western line from Changsha to Xiangtan and the highway from Liling to Xiangtan were officially opened to traffic on February 6 and October 19, 2007 respectively. The expressways from Shaoyang to Huaihua in Hunan Province, and from Huaihua to Xinhua were officially opened to traffic on November 10 which marked that the entire 534.7 km of Shanghai-Kunming Expressway (Hunan Section) was connected. The said four sections of expressways made an additional traffic mileage of 362 km, making the total expressway traffic mileage in Hunan Province to reach 1,765 km.

There were 18 new expressway construction projects commenced in Hunan Province in 2008, namely Yong-Lan, Sui-Yue, Heng-Yue, Yan-Mu, An-Shao, Yiyang-Raocheng, Xia-Rong, Lou-Xin, Ji-Huai, Chang-Liu, Zhang-Hua, Feng-Chang, Yue-Chang, Chang-An, Yueyang-Xiangtan, Hengyang-Linwu, Huaihua-Tongdao expressways. A record high planned investment of RMB19.35 billion in expressways was realised in Hunan Province for the year, representing an increase of approximately 73.96% over 2007.

### Status of new expressway construction projects commenced in Hunan Province in 2008

	Project name	Approximate total investment (RMB billion)	Commencement Date	Approximate mileage (km)	Starting and ending points
1	Er-Guang Expressway, Yongzhou-Lanshan	10.8	2008-5-28	145	Yongzhou-Lanshan
2	Sui-Yue Expressway (Hunan Section)	1.7	2008-6-15	24	Daorenji-Kunshan
3	Hengyang-Nanyue (Dayuandu)	2.5	2008-6-15	52	Hengyang-Nanyue
4	Yanling-Mucun	1.1	2008-6-15	18	Yanling-Mucun
5	Er-Guang Expressway, Anhua-Shaoyang	8.5	2008-7-30	131	Anhua-Shaoyang
6	Yiyang High Speed Ring	1.6	2008-7-30	40	Xinfengcun-Qingshan Temple
7	Xia-Rong Expressway (Hunan Section)	19.7	2008-8-31	308	Rucheng-Daoxian
8	Loudi-Xinhua	6.1	2008-8-31	96	Loudi-Xinhua
9	Bao-Mao Expressway, Jishou-Huaihua	8.8	2008-9-26	105	Jishou-Huaihua
10	Daoxian-Hezhou	2.4	2008-9-27	51	Daoxian-Yongjiting

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	<b>Project name</b>	<b>Approximate total investment (RMB billion)</b>	<b>Commencement Date</b>	<b>Approximate mileage (km)</b>	<b>Starting and ending points</b>
11	Changsha-Liuyang	4.0	2008-10-31	65	Changsha- Liuyang
12	Zhangjiajie-Huayuan	12.1	2008-10-31	147	Zhangjiajie- Huayuan
13	Er-guang Expressway, Fengxian-Changde	8.3	2008-11-28	130	Fengxian- Changde
14	Hang-Rui Expressway, Yueyang -changde	10.3	2008-11-28	141	Yueyang- Changde
15	Er-Guang Expressway, Changde-Anhua	5.8	2008-11-28	95	Changde- Anhua
16	Beijing-Zhuhai Repeated Line, Yueyang-Xiangtan	13.1	2008-12-30	174	Yueyang- Xiangtan
17	Beijing-Zhuhai Repeated Line, Hengyang-Linwu	15	2008-12-30	202	Hengyang- Linwu
18	Bao-Mao Expressway, Huaihua-Tongdao	15.6	2008-12-30	198	Huaihua- Tongdao
	<b>Total</b>	<b>147.4</b>		<b>2,122</b>	

*Sources: the Hunan Transportation Department and the Company*

There were 14 projects planned to commence in Hunan Province in 2009, including Yanling sub-junction to Yanling County, Xinhua to Shupu, Shupu to Huaihua, Jing-Gang-Ao State Expressway Changsha Connecting Line, Changsha High Speed Ring North-east Section and South-east Section, Yueyang to Pingjiang (Huangnijie), Pingjiang (Huangnijie) to Liling, Liling to Yiuxian, Yanling to Rucheng, Liuyang to Tieshu'ao, Jiehualong (Xiangganjie) to Chaling, Fenghuang to Daxing, Dongkou to Xinning, Linxiang (Dajie) to Yueyang, etc. The scale of construction is 1,012 km and the planned investment is RMB75 billion. According to Hunan Transportation Department, as at January 2009, the traffic mileage of expressways in Hunan Province exceeded 2,000 km with 2,781 km mileage and 28 projects under construction.

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### Status of new expressway construction projects commenced in Hunan Province in 2009

	<b>Project name</b>	<b>Approximate scale of construction (km)</b>	<b>Approximate total investment (RMB billion)</b>
1	Yanling sub-junction to Yanling County	13	1
2	Xinhua to Shupu	92	6.5
3	Shupu to Huaihua	93	7
4	Jing-Gang-Ao State Expressway Changsha Connecting Line	5	0.5
5	Changsha High Speed Ring North-east Section and South-east Section	26	1.5
6	Yueyang to Pingjiang (Huangnijie)	108	8.6
7	Pingjiang (Huangnijie) to Liling	101	6.8
8	Liling to Yiuxian	102	6.7
9	Yanling to Rucheng	150	11.5
10	Liuyang to Tieshu'ao	80	5.8
11	Jiehualong (Xiangganjie) to Chaling	46	2.8
12	Fenghuang to Daxing	30	1.6
13	Dongkou to Xinning	92	5.5
14	Linxiang (Dajie) to Yueyang	74	9.2
	<b>Total</b>	<b>1,012</b>	<b>75</b>

*Sources: the Hunan Transportation Department*

Expressway Network in Hunan Province



- Map Legend**
-  Provincial borders
  -  Existing expressway
  -  Expressway under construction or planned to be built

*(Please refer to the names of the expressways and the source on next page)*

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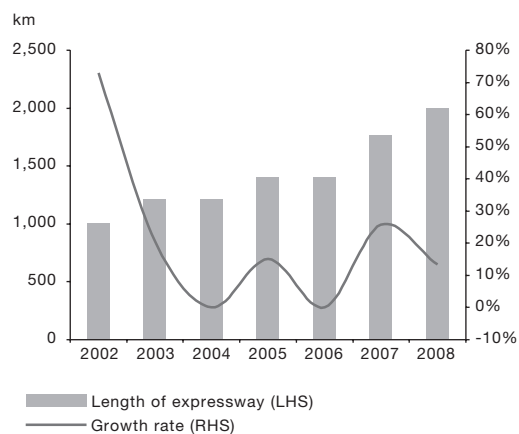
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### Names of expressways referred to in the map on the previous page

- |  |   |
|--|---|
| 1. Dong-Chang Expressway   | 25. Tan-Heng West Expressway                |
| 2. Yue-Chang Expressway<br>(Hangzhou-Ruili State<br>Expressway<br>(Yueyang-<br>Changde Section)) | 26. Tan-Shao Expressway                     |
| 3. Sui-Yue Expressway<br>(Hunan Section)   | 27. Heng-Shao Expressway                    |
| 4. Yi-Chang Expressway   | 28. Huai-Xin Expressway                     |
| 5. Zhang-Hua Expressway  | 29. Huai-Tong Expressway                    |
| 6. Chang Ji Expressway<br>(Hangzhou-Ruili State<br>Expressway<br>(Changde-Jishou Section))       | 30. Shao-Huai Expressway                    |
| 7. Chang-Mei Expressway  | 31. Shao-Yong Expressway                    |
| 8. Yue-Chang Expressway  | 32. Heng-Zao Expressway                     |
| 9. Lin-Chang Expressway  | 33. Heng-Da Expressway                      |
| 10. Rao-Cheng Expressway   | 34. Heng-Yan Expressway                     |
| 11. Chang-Yong Expressway  | 35. Yong-Lan Expressway                     |
| 12. Chang-Liu Expressway   | 36. Heng-Lin Expressway                     |
| 13. Airport Expressway   | 37. Lei-Yi Expressway                       |
| 14. Chang-Tan Expressway   | 38. Ning-Dao Expressway                     |
| 15. Chang-Zhu Expressway   | 39. Chen-Ning Expressway                    |
| 16. Li-Tan Expressway  | 40. Ru-Chen Expressway                      |
| 17. Chang-Yi Expressway  | 41. Yi-Feng Expressway                      |
| 18. Chang-Tan West Expressway  | 42. Yueyang-Dajie Expressway                |
| 19. Ji-Cha Expressway  | 43. Liu-Tie Expressway                      |
| 20. Ji-Huai Expressway   | 44. Cha-Jie Expressway                      |
| 21. Lou-Xin Expressway   | 45. Yan-Mu Expressway                       |
| 22. Mei-Shao Expressway  | 46. Yan-Ru Expressway                       |
| 23. Tan-Shao Expressway  | 47. Dong-Xin Expressway                     |
| 24. Tan-Lei Expressway   | 48. Phoenix-Daxing Expressway               |
|  | 49. Xinhua-Xupu, Xupu-Huaihua<br>Expressway |
|  | 50. Yue-Liu Expressway                      |
|  | 51. Liuyang-Youxian Expressway              |
|  | 52. Heng-Yue Expressway                     |

*Source: The information contained in the map above has been derived, in part, from (1) the feasibility study report on the Sui-Yue Expressway (Hunan Section) prepared by the Hunan Provincial Communications Planning, Surveying And Designing Institute in February 2007, (2) official government information including the Hunan Provincial Expressway Network Planning 2006 issued by the Hunan Provincial Government and (3) other sources available from the internet (including governmental, expressway industry, online encyclopedia and news websites). Our Directors have taken reasonable care to the reproduction of such information and believe that such information is reliable.*

### Traffic Mileage of Expressways in Hunan Province



*Sources: CEIC*

## 6. HUNAN PROVINCIAL EXPRESSWAY PLANNING

According to Hunan Provincial Expressway Network Planning (《湖南省高速公路網規劃》) (the “Planning”) formulated by the Hunan Transportation Department in 2006, the structure and objective of Hunan Provincial expressway network are to form an expressway network that links east and west horizontally and south and north vertically, covers the entire province with connection to peripheral areas, with appropriate density, efficiency and convenience. The specific objectives are as follows:

1. Connecting Changsha, the capital city with other 13 cities, constructing express passages from Changsha to the external places such that daily return journeys from Changsha to the other 13 cities are possible and adjacent cities are directly connected by expressways.
2. Connecting surrounding provinces to form inter-provincial expressway passages such that it only takes one day to travel from Changsha to capital cities of adjacent provinces.
3. Connecting transport hubs such as important highways, railways, major ports and airport to form a high speed distribution highway network and to establish a comprehensive and modern integrated transport system in Hunan Province.
4. Connecting famous tourist destinations in the province to guarantee convenient, safe and comfortable transport for tourism development in Hunan Province.
5. Forming a fast and smooth expressway network covering the entire province such that more than 90% of the province’s towns (cities at county level and city districts) can access expressways within 30 minutes.

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The structure of Hunan Provincial expressway network can be simply defined as an expressway network with five vertical lines and seven horizontal lines, the total scale of which is approximately 5,615 km, of which 2,530 km is vertical lines, 2,705 km horizontal lines and 380 km other expressways. The following table shows the specific routes of Hunan Provincial expressway network planning.

	Name of route	Approximate mileage (km)	Major control points
<b>I</b>	<b>Vertical lines</b>	<b>2,530</b>	<b>Net of repeated mileage of 24 km</b>
First vertical	Yueyang (Xiangerjie) to Rucheng (xiangyuejie)	523	(Suizhou), Yueyang, Pingyang, Liuyang, Liling, Youxian, Chaling, Yanling, Guidong, Rucheng, (Shenzhen)
Second vertical	Jing-Gang-Ao state expressway (Hunan Section)	532	(Wuhan), Lixiang, Yueyang, Changsha, Xiangtan, Hengyang, Changning, Leiyang, Chenzhou, YIzhang, (Guangzhou)
Third vertical	Yueyang (Xiangerjie) to Linwu (xiangyuejie) (Jing-Gang-Ao repeated line)	505	(Wuhan), Yueyang, Miluo, Changsha, Xiangtan, Hengyang, Guiyang, Linwu, (Guangzhou)
Fourth vertical	Erlianhaote to Guangzhou state expressway (Hunan Section)	613	(Jingzhou), Fengxian, Changde, Lianyuan, Shaoyang, Yongzhou, Niyuan, Lanshan, (Changzhou)
Fifth vertical	Baotou to Maoming state expressway (Hunan Section)	581	(Chongqing), Huayuan, Jishou, Fenghuang, Huaihua, Jingzhou, Tongdao, (Guilin)

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## INDUSTRY AND REGULATORY OVERVIEW

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II	Horizontal lines	2,705	Net of repeated mileage of 54 km
First horizontal	Hangzhou to Ruili state expressway (Hunan Section)	532	(Chibi), Yueyang, Anxiang, Changde, Yuanling, Jishou, Fenghuang
Second horizontal	Liuyang (Xiangyuejie) to Huayuan (Xiangyujie)	659	(Tonggu), Liuyang, Changsha, Yiyang, Changde, Cili, Zhangjiajie, Yongshun, Huayuan, (Chongqing)
Third horizontal	Loudi to Huaihua	245	Loudi, Lianyuan, Xinhua, Shupu, Huaihua
Fourth horizontal	Shanghai to Kunming state expressway (Hunan Section)	553	(Pingxiang), Liling, Zhuzhou, Xiangtan, Xiangxiang, Shasoyang, Dongkou, Huaihua, Zhijiang, Xinhuang, (Guiyang)
Fifth horizontal	Hengyang (Dapu) to Shaoyang	159	Hengyang, Shaodong, Shaoyang
Sixth horizontal	Quanzhou to Nanning state expressway (Hunan Section)	308	(Ji'an), Chaling, Hengdong Hengyang, Youzhou, (Guiling)
Seventh horizontal	Xiamen to Chengdu state expressway (Hunan Section)	303	(Ganzhou), Rucheng, Chenzhou, Guiyang, Jiahe, Ninyuan, Daoxian, (Guiling)



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III	Other expressways	380	Net of repeated mileage of 35 km
1	Zhuzhou to Yijiawan	23	Zhuzhou, Xiangtan
2	Changsha High Speed Ring	78	Changsha
3	Changsha Airport Expressway	17	Changsha, Huanghua Airport
4	Changsha to Zhuzhou	37	Changsha, Zhuzhou
5	Xiangshao Expressway, Shaoshan connected to Shaoshan	11	Shaoshan
6	Liuyang to Hongkoujie (xiangganjie)	35	Liuyang
7	Hengyang to Nanyue (Dayuandu)	54	Hengyang, Nanyue
8	Yiyang South High Speed Ring	40	Yiyang
9	Yizhang to Fengtouling (Xiangyuejie)	48	Yizhang
10	Yanling to Mucun (Xiangganjie)	16	Yanling
11	Daoxian to Yongjiting (Xiangguijie)	56	Daoxian
<b>Total</b>		<b>5,615</b>	

### 7. BASIC STATUS OF HIGHWAYS IN CHINA IN 2007

Rank	Total mileage		Rank	Expressway		Rank	Class II and above		Proportion of total mileage attributable to class II and above		
	Province	Approximate mileage (km)		Province	Approximate mileage (km)		Province	Approximate mileage (km)	Province	%	
	Total	3,583,715	Total	53,913	Total	380,419	Total			10.62	
1	Henan	238,676	1	Henan	4,556	1	Shandong	34,222	1	Shanghai	32.85
2	Shandong	212,237	2	Jiangsu	4,033	2	Guangdong	30,756	2	Tijin	30.38
3	Yunnan	200,333	3	Guangdong	3,558	3	Henan	29,448	3	Jiangsu	22.02
4	Hubei	189,395	4	Shandong	3,518	4	Jiangsu	28,028	4	Beijing	20.21
5	Guangdong	183,780	5	Zhejiang	2,853	5	Hebei	20,660	5	Liaonin	19.06
6	Hunan	182,005	∴			∴			∴		
			16	Hunan	1,768	20	Hunan	8,329	28	Hunan	4.75

Sources: the Hunan Transportation Department

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Proportion of total mileage attributable to class roads			Proportion of class II or above roads among state and provincial roads			Cement and asphalt road surface			Sand and stone road surface		
Rank	Province	%	Rank	Province	%	Rank	Province	Approximate mileage (km)	Rank	Province	Approximate mileage (km)
	Total	70.75		Total	67.25		Total	1,776,499		Total	1,807,217
1	Shanghai	100.00	1	Jiangsu	97.31	1	Shandong	180,730	1	Yunnan	165,208
2	Tianjin	99.91	2	Shanghai	95.67	2	Henan	142,165	2	Hunan	118,618
3	Beijing	98.94	3	Shandong	93.76	3	Hebei	106,054	3	Henan	98,597
4	Shandong	97.87	4	Hubei	93.55	4	Guangdong	102,771	4	Heilongjiang	97,135
5	Ningxia	92.20	5	Tianjin	90.62	5	Jiangsu	98,578	5	Hubei	96,511
	⋮			⋮			⋮				
30	Hunan	45.04	25	Hunan	50.63	11	Hunan	67,769			

Sources: the Hunan Transportation Department

### REGULATORY OVERVIEW

#### The PRC Regulations on Highway Construction and Toll Highway Business

The construction, survey, design and operation of highways in the PRC are subject to the supervision and administration of the relevant government authorities, primarily in aspects such as qualifications of the entities undertaking the construction, survey and design work, project tendering, quality, safety, checking for the completion of engineering works, as well as the environmental protection.

#### Highway Regulatory Authorities

The NDRC is responsible for the overall investment plan of the major highways as defined in the relevant regulations. The investment plan of other highway projects shall be reviewed and approved by the provincial branches of the NDRC.

The MOT is responsible for the overall construction plan and administration on the construction of the major highway projects as determined by the MOT. At a local level, the departments of communications are in charge of highway construction projects within their administrative areas.

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Responsibility for setting and regulating highway toll rates, toll terms and toll stations rests with the provincial governments and/or the relevant provincial departments of price, finance, and communications.

The Sui-Yue Expressway (Hunan Section) is entirely within the territory of Hunan province and is a private-funded operational expressway. Therefore, it is subject to the highway investment plan of Hunan Provincial Development and Reform Commission, and the highway construction plan and administration of Hunan Transportation Department. Hunan Provincial Expressway Administration Bureau is responsible for the industrial administration on expressway projects. The setting of toll stations, toll term shall be subject to the approval of Hunan Provincial Government, while the toll rates and any adjustment thereof shall be approved by Hunan Provincial Government after the joint examination of Hunan Provincial Bureau of Price and the Hunan Transportation Department.

### **Highway Regulations**

#### ***Basic Law***

The basic law within the PRC legal regime applicable to the highway business is the PRC Highway Law (中華人民共和國公路法) adopted on July 3, 1997, as amended in 1999 and in 2004 separately. Planning, construction, maintenance, management, use and administration of roads within the borders of the PRC, including highway bridges, highway tunnels and highway crossings, shall comply with the requirements of the Highway Law.

Development of roads has been assigned great significance by the PRC government and highway construction shall be brought into the national economic and social development plan, following the principles of complete planning, rational distribution, assured quality, guaranteed unimpeded passage, environmental protection, and equal emphasis on construction, improvement and maintenance.

The PRC government encourages domestic and foreign investors to invest in highway construction. According to the Highway Law, all roads are protected by the State and no individual or entity shall destroy or damage roads or illegally occupy roads, land or facilities used for roads. Investors shall establish a special purpose project company with legal person status for each highway, and the project company shall be responsible for the construction, operation and management of the highway in accordance with the relevant laws and regulations. The project companies are allowed to raise funds through issue of shares and corporate bonds, subject to approval of the relevant governmental authorities.

Roads in the PRC are divided into national roads (國道), provincial roads (省道), county roads (縣道) and township roads (鄉道) in terms of their significance in the national highway network; and also divided into expressways (高速公路), first grade roads (一級公路), second grade roads (二級公路), third grade roads (三級公路) and fourth grade roads (四級公路) according to the level of their technology standards.

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## INDUSTRY AND REGULATORY OVERVIEW

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Construction of roads shall be carried out in accordance with the infrastructure construction procedures provided in laws and regulations and the project companies shall obtain approvals, licenses and permits for construction of roads from the departments in charge of communications above county level. Feasibility study work, survey and design work, construction work and project supervision shall be undertaken only by such companies or entities holding necessary qualification certificates required by laws and regulations.

### ***Regulations on Call for Tender and Submission of Bids***

In accordance with the Tender Law of the PRC (《中華人民共和國招標投標法》) which took effect on January 1, 2000, a call for tender is required for all aspects of the project (including its construction, reconnaissance, design and supervision) relating to social and public benefits and security, such as large-scale infrastructure and public utilities projects in the PRC.

In line with the specific standards provided in the Measures of Hunan Province on the Implementation of the Tender Law (《湖南省實施《中華人民共和國招標投標法》辦法》) effective on January 1, 2002, Sui-Yue Expressway (Hunan Section) project, with its total investment exceeding RMB10,000,000 and the estimated price of every single reconnaissance, design or supervisory contract up to RMB 300,000, shall be subject to tenders with respects to its construction, purchase of major equipments and materials, reconnaissance, design and supervision works. Daoyue has duly completed the tenders for civil work construction and supervisory works for the project, and relevant tender documents have been filed for record with the Hunan Transportation Department. As the project proceeds, Daoyue will organize tenders for the other stages of the project and file the tender documents with the Hunan Transportation Department in compliance with the relevant regulations.

### ***Regulations on the Procedure of Highway Construction***

According to the Measures of Supervision and Administration on the Highway Construction (the “Highway Construction Measures” 《公路建設監督管理辦法》) promulgated by the MOT which took effect on August 1, 2006, the construction of an enterprise-invested highway shall proceed following the steps below:

- (1) compiling the feasibility study report of the project in accordance with the highway planning;
- (2) selecting the investor of the project through tender;
- (3) compiling the application of the project by the investor and submit the application to the examination and approval department for approval;
- (4) compiling the preliminary design documents in accordance with the approved application of the project, and submitting those concerning public interest and safety or compulsory standards for project construction to the competent department of communications for examination and approval;

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- (5) compiling the construction design documents according to the preliminary design documents;
- (6) conducting tenders for the project according to the approved construction design documents as approved;
- (7) carrying out pre-construction preparing works such as land expropriation and applying for the approval for commencement of construction work with the competent department of communications;
- (8) organizing the project construction in compliance with the project approval for commencement of construction work;
- (9) after the project is completed, compiling the completion documents, completing the final accounting of the project and financial settlement of the project completion, as well as the delivery checking and completion checking of the project;
- (10) organizing post project evaluation after the project passes the completion checking.

As at the Latest Practicable Date, we have duly passed through the above procedures (1) to (7) in full compliance with the relevant laws and regulations.

### ***Regulations on the Safety and Quality of Highway Construction***

Under the Regulations of the Supervision on the Quality of Highway Projects (《公路工程質量監督規定》) and the Regulations of the Supervision on the Safety of Construction of Highway and Waterway of Hunan Province (《湖南省公路水運工程施工安全監督管理辦法》) effective on June 1, 2005 and June 23, 2006 respectively, the project company of a highway construction project should apply for the supervision on the quality and safety of the project construction within 30 days before applying for the approval for commencement of construction work. Before the delivery checking, the quality supervision authorities shall examine the quality of the project and issue an quality examination opinion. Before the completion checking, the quality supervision authorities shall review and appraise the quality of the project and issue a quality appraisal report. Only after passing the quality appraisal could a highway be put into the completion checking.

We have applied for the supervision on the safety and quality of the construction of the Sui-Yue Expressway (Hunan Section) project with the Hunan Quality Supervision Station of Transport Construction (湖南省交通建設質量監督站). On August 17, 2009, the Hunan Quality Supervision Station of Transport Construction issued a quality and safety supervision letter to us, which confirms that the Sui-Yue Expressway (Hunan Section) project is in compliance with the infrastructure construction procedure and the Hunan Quality Supervision Station of Transport Construction agreed to supervise the quality and safety of the Sui-Yue Expressway (Hunan Section) project in accordance with the relevant regulations.

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We will cooperate closely with the relevant authorities to facilitate the supervision work and take the supervisory advices to ensure the quality and safety of the construction.

### ***Regulations on Completion (Delivery) Checking***

According to the Measures of Completion (Delivery) Checking of Highway Construction (《公路工程竣(交)工验收办法》) effective on October 1, 2004 and the Highway Construction Measures, upon completion of a highway project, the highway shall be put into operation only after duly being examined and checked by the relevant communications authorities. Construction checking of a highway project is divided into delivery checking and completion checking. Delivery checking shall be organized by the project company which shall, after each section of the project passes the delivery checking, compile a delivery checking report to be filed with the competent department of communications for record. If the communications department has no objection on the report within 15 days after the filing, the highway can be put into trial operation. After the first two years of trial operation, the project company shall apply for completion checking, passing which the highway could be put into regular operation.

After the construction of the Sui-Yue Expressway (Hunan Section) is completed, we will duly organize a delivery checking on the project, passing which we will carry out trial operation of the expressway. After the trial operation, we will apply for a completion checking on the project with the Hunan Transportation Department. We will construct the expressway in full compliance with the relevant regulations and standards so to ensure that we could pass the delivery checking and completion checking and the expressway could open to traffic in due course.

### ***Regulations on Toll Highway Business***

#### Toll Collection and Setting up Toll Collection Stations

Pursuant to the Regulations on the Administration of Toll Roads (the “Toll Roads Regulations” 《收费公路管理条例》) effective on November 1, 2004, the MOT requirements for toll roads include:

- consecutive mileage no less than 30 km for expressway, except for the expressway linking the urban areas of a city to the local airport;
- consecutive mileage no less than 50 km for first grade highway;
- mileage no less than 800 m for bridge or tunnel with two lanes, or 500 m for bridge or tunnel with four lanes.

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Operators of roads of or lower than the second grade shall not be approved to collect tolls. But tolls may be collected upon approval according to law on the secondary highway whose consecutive mileage is more than 60 km, and which is constructed by the provinces, autonomous regions, and municipalities directly under the Central Government in the middle and western areas as determined by the State. The right of the operator of a toll highway includes the right to collect tolls, operate the advertisements along the highway and operate the service facilities along the highway.

Under the Toll Roads Regulations, roads constructed by the competent communications department of the people's government above the county level through making use of loans or raising funds with compensation from enterprises or individuals are referred to as "the roads whose loans are repaid by the government", whereas roads constructed with the investment of domestic or foreign economic organizations, and roads whose loans are repaid by the government and toll rights are transferred to domestic or foreign economic organizations in accordance with the Highway Law, are collectively referred to as "the operational roads". The Sui-Yue Expressway (Hunan Section) shall fall within the category of operational roads.

The set-up of toll collection stations on the highway shall be examined and approved by the provincial government pursuant to the following requirements:

- for expressways and other closed type highways, collection stations may be set up only at the entrance and exit of the highway, except that the collection station is necessary to be set up at the connection points between provinces;
- the distance between two collection stations on open type highways shall not be less than 50 km.

The term of toll collection shall also be approved by the provincial government. For operational roads, the terms shall not be longer than 25 years, except for those of operational roads in central and western provinces designated by the State Council which shall not exceed 30 years.

The standard of tolls and any adjustment thereof for operational roads shall be approved by the provincial governments after the joint review and approval by the provincial departments of communications and price.

According to the Concession Agreement, the concession period of Sui-Yue Expressway (Hunan Section) is 27 years excluding the construction period. Hunan Transportation Department should assist us to obtain the approval of toll collection from the People's Government of Hunan Province and the License of Charge from the Hunan Provincial Price Bureau within 30 days before the project delivery. The setting, increase and relocation of toll stations should be approved by the People's Government of Hunan Province and Hunan Transportation Department. We will abide by the Concession Agreement as well as the relevant laws and regulations in terms of the toll period, toll standard and setting of toll stations. After we obtain the approval of toll collection and the License of Charge, we will collect tolls with respect to the expressway in compliance with these documents.

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### Pledge of Toll Collection Right

In accordance with the PRC Property Law, the Measures on the Pledge Registration for Receivable Account, the Interpretation on Several Issues in Application of the Guaranty Law (《最高人民法院關於適用《中華人民共和國擔保法》若干問題的解釋》) issued by the PRC Supreme People's Court as well as an approval letter issued to the MOT and People's Bank of China by the State Council (《國務院關於收費公路項目貸款擔保問題的批復》) dated April 26, 1999, a toll collection right may be pledged to secure debt. The pledgor and pledgee shall sign written pledge agreement and the pledge shall take effect upon registration with the Credit Reference Center of the People's Bank of China.

According to the loan agreement we entered into with China Merchants Bank on April 30, 2009, the toll right of Sui-Yue Expressway (Hunan Section) shall be pledged to secure the loan and relevant interests thereunder. We shall sign a separate pledge agreement with China Merchants Bank once the toll right is officially granted by the relevant authorities, and we will duly register the pledge with the relevant authority.

### Transfer of Toll Collection Right

Pursuant to the Measures on the Transfer of Rights to Toll Roads (《收費公路權益轉讓辦法》) promulgated by the MOT, the NDRC and the Ministry of Finance on August 20, 2008 and effective from October 1, 2008, the rights to toll roads, including the toll collection right, advertising right and right of operating the service facilities, are allowed but strictly limited to be transferred. Only when the roads meet the technical grade and scale provided under the Toll Roads Regulations may the toll collection right thereupon be transferred. In addition, the toll collection right shall not be transferred if the highway is an isolated bridge or tunnel with a length of less than 1000 meters, or is a second grade highway, or when more than 2/3 of the total fee collection period thereof has expired.

### Land Development Issues

Pursuant to the PRC Land Administration Law (《中華人民共和國土地管理法》) promulgated on June 25, 1986 and amended on August 28, 2004, land use rights for purposes of construction of urban infrastructure, public welfare undertaking and transportation infrastructure given priority in aid by the State shall be obtained through allocation given the approval of government above the county level. According to the Measures on the Land Registration of Hunan Province (《湖南省土地登記辦法》) effective on January 8, 1997, project companies of projects utilizing the state land through allocation shall apply for the registration of land use rights within 30 days after the completion checking of the projects.

Except for the 1.2918 hectares of land used for the construction of toll stations and service area, the rights to land used for the construction of the Sui-Yue Expressway (Hunan Section) are acquired through allocation, therefore the relevant certificates of the allocated land use rights could not be obtained until the project is completed. The construction of the Sui-Yue Expressway (Hunan Section) is expected to be completed by the end of 2011. We will submit an application for registration of our allocated land use rights after the completion checking of the expressway.



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A small portion of the land use rights (approximately 1.2918 hectares) for the construction of toll stations and the service area will be acquired by us through payment of use fee (有償使用). We have duly paid up the aggregate use fee for such portion of land of RMB488,884 on October 29, 2009 and will enter into land grant contract with the government authority. Our PRC Legal Advisers have advised us that there is no legal impediment for us to obtain the land use rights certificates with respect to such 1.2918 hectares of land. We expect to obtain the land use rights certificates with respect to such 1.2918 hectares of land at the same time when we obtain the land use rights certificates with respect to the allocated construction land.

### **Environment Protection**

According to the PRC Environmental Protection Law (《中華人民共和國環境保護法》) promulgated on December 26, 1989 and the Measures on the Administration of Environmental Protection of Transport Construction Projects (《交通建設項目環境保護管理辦法》) issued on May 13, 2003, the project company of a highway construction project shall compile an environmental impact assessment report on the project and, after the preliminary examination of the department of communications at the corresponding level, submit the report to the department of environmental protection for approval. After the approval, if there is any significant change or delay of construction of the project, a revised report should be submitted for the examination and approval of relevant departments all over again. After the completion of the construction, the project company shall apply for a completion checking on the environmental protection facilities with the department of environmental protection and report to the department of communications. Only after the environmental protection facilities are found qualified after the completion cheque could the project be put into operation.

Based on the original dual two-lane standards of the Sui-Yue Expressway (Hunan Section), we have duly compiled the environmental impact assessment report and obtained the approval of the report from the Hunan Provincial Environmental Protection Bureau. As the number of the lanes of the expressway has been approved to change to dual three-lane, we have commissioned the Research Institute of Highway of the MOT (交通部公路科學研究所) to compile a revised report to be submitted for the review and approval of the Hunan Provincial Environmental Protection Bureau. We have obtained the approval on the revised report from the Hunan Provincial Environmental Protection Bureau in November 2009.

### **Tax**

On March 16, 2007, the Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) was promulgated with effect from January 1, 2008 which adopted a uniform tax rate of 25% for domestic and foreign-invested enterprises. Under the current PRC tax laws and regulations, profit arising from the investment and operation of highways above the first grade which are approved for construction by the investment authorities above the province level may enjoy, subject to approval from or filing with the relevant taxation authorities, a three year exemption from, to be followed by a three year 50% reduction in the rate of, enterprise income tax, commencing from the first income-receiving year.

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The Sui-Yue Expressway (Hunan Section) is a highway of above the first grade and was approved for construction by the Hunan Provincial Development and Reform Commission. Therefore we believe we are qualified to enjoy the above income tax preferential treatment. We will apply or file for such preferential treatment with competent tax bureaus after we gain the first sum of income from operation of the expressway.

According to the Notice on the Business Tax Policy for Toll Income of Highway Operating Companies (《財政部、國家稅務總局關於公路經營企業車輛通行費收入營業稅政策的通知》), the business tax levied on the operators of toll roads with respect to the vehicle toll income was reduced to 3% from 5% since June 1, 2005. Therefore, we are subject to the business tax at the rate of 3% with respect to all the toll income.

Pursuant to the Provisional Regulations on the Farmland Occupation Tax (《中華人民共和國耕地佔用稅暫行條例》) promulgated on December 1, 2007, the Farmland Occupation Tax leviable on operators of highways occupying the farmlands shall be reduced to RMB 2 Yuan Per square meters. We have fully and timely paid the farmland occupation tax in respect of the farmland occupied by Sui-Yue Expressway (Hunan Section).

### **Foreign currency exchange**

Pursuant to the Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》) promulgated on January 29, 1996 and amended on August 1, 2008, Renminbi is freely convertible only to the extent of current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Capital account items, such as direct equity investments, loans and repatriation of investment, require the prior approval from or registration with the SAFE or its local branch for conversion of RMB into a foreign currency, and remittance of the foreign currency outside the PRC.

### **Dividend Distribution**

The principal laws governing dividends payable by PRC operating subsidiaries include the Company Law of the PRC (《中華人民共和國公司法》), as amended in 2005 and the Law on Chinese-Foreign Equity Joint Ventures of the PRC (《中華人民共和國中外合資經營企業法》), as amended in 2001. Under these laws, PRC subsidiaries, including foreign-invested enterprises and domestic companies in China, may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. Pursuant to the Law on Chinese-Foreign Equity Joint Ventures of the PRC and its implementation regulations, Chinese-foreign equity joint ventures such as Daoyue, shall distribute dividends after setting aside a certain amount of their after-tax profit based on proportions determined by their board to their reserve fund, employee bonus and welfare fund, and enterprise development fund. According to a notice issued by the PRC Ministry of Finance and effective on April, 2006, enterprises are no longer required to retain the public welfare fund, including the employee bonus and welfare fund.