
HISTORY, DEVELOPMENT AND GROUP STRUCTURE

INTRODUCTION

Our Group is a project company in the infrastructure sector in China. Its primary business is to invest, build, operate and manage infrastructure projects in China. At present, our Group's only project is the Sui-Yue Expressway (Hunan Section) (隨州至岳陽高速公路湖南段), which is a dual three-lane expressway with a planned length of approximately 24.08 km. The Sui-Yue Expressway (Hunan Section) is currently under construction and is planned to be completed by the end of 2011. Our Group will operate the Sui-Yue Expressway (Hunan Section) once it is completed and open to traffic pursuant to the Concession Agreement under which the concession period is 27 years (excluding the construction period). Our Group participates in such project through our 90% equity interest in Daoyue, which has an exclusive right to build and operate the Sui-Yue Expressway (Hunan Section) for a term of 27 years (excluding the construction period) pursuant to the Concession Agreement.

HISTORY AND DEVELOPMENT

Huayu Investment was established on July 22, 1993. It commenced investment, development and operation of toll expressways in Shenzhen in 1999. Since 1994, Mr. Chan has been the legal representative and director of Huayu Investment. For further details of Huayu Investment's interests and involvement in other toll road projects, please refer to the section headed "Relationship with Ultimate Controlling Shareholder" in this prospectus.

Taking advantage of its experience and expertise in the investment, development and operation of toll expressway projects, Huayu Investment began to explore opportunities for expressway projects outside Shenzhen. On October 23, 2004, Huayu Investment and the Hunan Transportation Department, acting under the authorisation of the People's Government of Hunan Province, entered into the Initial Concession Agreement pursuant to which Huayu Investment was granted the exclusive right to invest and build the Sui-Yue Expressway (Hunan Section), together with the exclusive right to operate and maintain such expressway upon completion of construction for a term of 25 years (excluding the construction period). The Sui-Yue Expressway (Hunan Section) is a section of the Sui-Yue Expressway which shall link the Hunan and Hubei provinces with a bridge crossing over the Yangtze River. The People's Government of the Hunan Province has approved the Initial Concession Agreement pursuant to an approval document Xiang Zheng Han [2004] No. 252 (湘政函[2004]252號) dated October 8, 2004.

Daoyue, the project company for the Sui-Yue Expressway (Hunan Section), was established on December 22, 2006 and, pursuant to the provisions of the Initial Concession Agreement, has the same rights and obligations of Huayu Investment under the Initial Concession Agreement. For further information, see the section headed "Business – The Sui-Yue Expressway (Hunan Section) - Project Concession" in this prospectus. At the time of its establishment, Daoyue had a registered capital of RMB50 million and was held as to 60% by Huayu Investment and the remaining 40% was held by Jinfeng for the benefit of Mr. Chan pursuant to a trust agreement between Jinfeng and Mr. Chan dated March 8, 2006. Our PRC Legal Advisers have advised that this trust arrangement is enforceable between Jinfeng and Mr. Chan. Mr. Chan, through various entities beneficially owned or controlled by him, has a controlling beneficial interest of 90.67% in Huayu Investment.

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On October 11, 2007, Jinfeng transferred its 40% equity interest in Daoyue to Huayu Investment for a consideration of RMB20 million, which was equal to the registered capital initially contributed by Jinfeng. A new business licence was issued by the Changsha Administration for Industry and Commerce (“CSAIC”) on November 12, 2007. Upon completion of such transfer, Daoyue became a wholly-owned subsidiary of Huayu Investment.

On May 20, 2008, the shareholder of Daoyue passed a resolution to change its name from Hunan Daoyue Expressway Co., Ltd. (湖南道岳高速公路有限公司) to Hunan Daoyue Expressway Industry Co., Ltd. (湖南道岳高速公路實業有限公司) and to increase its registered capital from RMB50 million to RMB100 million. A new business licence was issued by the CSAIC on May 22, 2008.

On January 4, 2009, the shareholder of Daoyue passed a resolution to further increase its registered capital from RMB100 million to RMB200 million. A new business licence was issued by the CASIC on January 9, 2009.

On executing the Reorganisation, discussions were held for the transfer of interest in Daoyue. The Hunan Transportation Department was not comfortable for Huayu Investment to transfer all of its interest to a foreign entity as the Sui-Yue Expressway (Hunan Section) is a major project and, as our Directors believe, it is common for PRC authorities to have a perception of better governance over domestic entities in the PRC. After due consideration, it was decided that Huayu Investment holds 10% interest in Daoyue and remains as the substantial shareholder of Daoyue. We were able to convince the Hunan Transportation Department that the transfer of interest in Daoyue, with Huayu Investment retaining some interest in Daoyue, will not result in any disadvantages for the Sui-Yue Expressway (Hunan Section) project. On March 17, 2009, Huayu Investment transferred its 90% equity interest in Daoyue to Good Sign for a consideration of RMB180 million. The consideration of RMB180 million was determined by making reference to an asset valuation report prepared by an independent valuer and was fully paid by Good Sign to Huayu Investment on July 7, 2009. A certificate of approval for establishment of enterprises with investment of Taiwan, Hongkong, Macao and overseas Chinese in the People’s Republic of China (中華人民共和國台港澳僑投資企業批准証書) was issued by the Hunan Provincial Government on March 17, 2009. A new business licence was issued by CASIC on April 13, 2009. If the Hunan Transportation Department has no objection to the transfer of equity interest by Huayu Investment in the future, Huayu Investment may consider to transfer further equity interest in Daoyue to our Group to reduce its equity interest in Daoyue to less than 10%. Currently, Huayu Investment has no intention to transfer its equity interest in Daoyue to any Independent Third Party.

On July 3, 2009, Daoyue obtained the approval from the Hunan Provincial Commerce Department (湖南省商務廳) to increase its registered capital from RMB200 million to RMB600.95 million. A certificate of approval for establishment of enterprises with investment of Taiwan, Hongkong, Macao and overseas Chinese in the People’s Republic of China (中華人民共和國台港澳僑投資企業批准証書) was issued by the Hunan Provincial Government on July 6, 2009.

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In order to streamline Daoyue's rights under the concession, Daoyue and the Hunan Transportation Department entered into the Concession Agreement on November 24, 2009 pursuant to which Daoyue is expressly and exclusively granted the concession right of 27 years (excluding construction period) to invest, build, operate and maintain the Sui-Yue Expressway (Hunan Section). The Initial Concession Agreement was terminated on November 24, 2009 when the Concession Agreement became valid and effective.

Daoyue is the only Group company established in the PRC. Our PRC Legal Advisers have advised that the establishment, the various transfers of interests and the increase in registered capital in Daoyue as described above complied with all applicable laws and regulations in the PRC, and that, save as the increase of the registered capital of Daoyue from RMB200 million to RMB600.95 million, all the registered capital and the increased registered capital (as the case may be) of Daoyue have been fully paid up in the required manner and within the required timeframe.

CORPORATE REORGANISATION

Our Company is the holding company of our Group, which includes Daoyue, our principal operating subsidiary. In preparation of the Listing, our Group underwent the Reorganisation which primarily involved the following steps:—

- (a) acquisition of 90% equity interest in Daoyue by our Group from Huayu Investment; and
- (b) establishment of our offshore shareholding structure.

A brief description of the steps involved in the Reorganisation are set out below. Please also refer to the section headed "Statutory and General Information — B. Corporate Reorganisation" in Appendix VII to this Prospectus.

On April 13, 2009, Good Sign, a wholly-owned subsidiary of Top Talent and an indirect wholly-owned subsidiary of VIL at that time, acquired 90% equity interest in Daoyue from Huayu Investment for a consideration of RMB180 million.

Our Company was incorporated as an exempted company in the Cayman Islands on April 21, 2009. At the time of its incorporation, our Company was wholly-owned by Codan Trust Company (Cayman) Limited. On April 21, 2009, VIL acquired from Codan Trust Company (Cayman) Limited one Share of HK\$0.01 in the share capital of our Company, which represented its entire issued share capital at that time, at its par value.

On May 29, 2009, Top Talent, a wholly-owned subsidiary of VIL at that time, acquired from Fameluxe Investment Limited one share of HK\$1.00 in Bright Regent, which was held by Fameluxe Investment Limited in favour of Top Talent pursuant to a declaration of trust dated May 4, 2006, at nil consideration.

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On November 30, 2009, in consideration of VIL transferring its entire interest of Top Talent to our Company, our Company issued and allotted an additional 299,999,999 new Shares to VIL.

On December 7, 2009, Mr. Chan, our Company, Top Talent, Good Sign and Bright Regent entered into a deed of assignment, pursuant to which Mr. Chan assigned the balances due from each of Top Talent, Good Sign and Bright Regent in the amounts of HK\$452,460,907.16, HK\$60,002,849 and HK\$924,236.70 respectively to our Company.

In addition, several personnel of Huayu Investment who have previously been involved as members of the management team of Daoyue, that is, Mr. Chen Min Yong, Mr. Zhang Bo Qing, Mr. Chen Jing An, Mr. Gan Xian Hui, Ms. Mao Hui and Ms. Liu Dan Yi, have officially joined Daoyue as employees and have each signed an employment contract with Daoyue accordingly. Apart from the construction of the Sui-Yue Expressway (Hunan Section), Daoyue is not involved or interested in any other projects or companies relating to the construction and/or management of toll roads in which Huayu Investment has an interest. For further details of Huayu Investment's interests and involvement in other toll road projects, please refer to the section headed "Relationship with Ultimate Controlling Shareholder" in this Prospectus.

THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the "M&A Provisions") was promulgated on August 8, 2006 and amended on June 22, 2009. The M&A Provisions require that an offshore special purpose vehicle (特殊目的公司) formed for listing purposes and controlled directly or indirectly by PRC companies or individuals using its shares to acquire an equity interest in a PRC company shall obtain the approval of the China Securities Regulatory Commission prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. We have been advised by our PRC Legal Advisers that, as Mr. Chan is a permanent Hong Kong resident, our Company does not constitute a special purpose vehicle as defined under the M&A Provisions. Therefore, the listing of our Company is not subject to the M&A Provisions, and does not require the permission, approval, or consent of the China Securities Regulatory Commission. Our PRC Legal Advisers have also advised us that, unless there are any rules promulgated in the future expressly providing otherwise, it is unlikely that the M&A Provisions will be considered by the relevant PRC authorities to be applicable to the listing of our Company.

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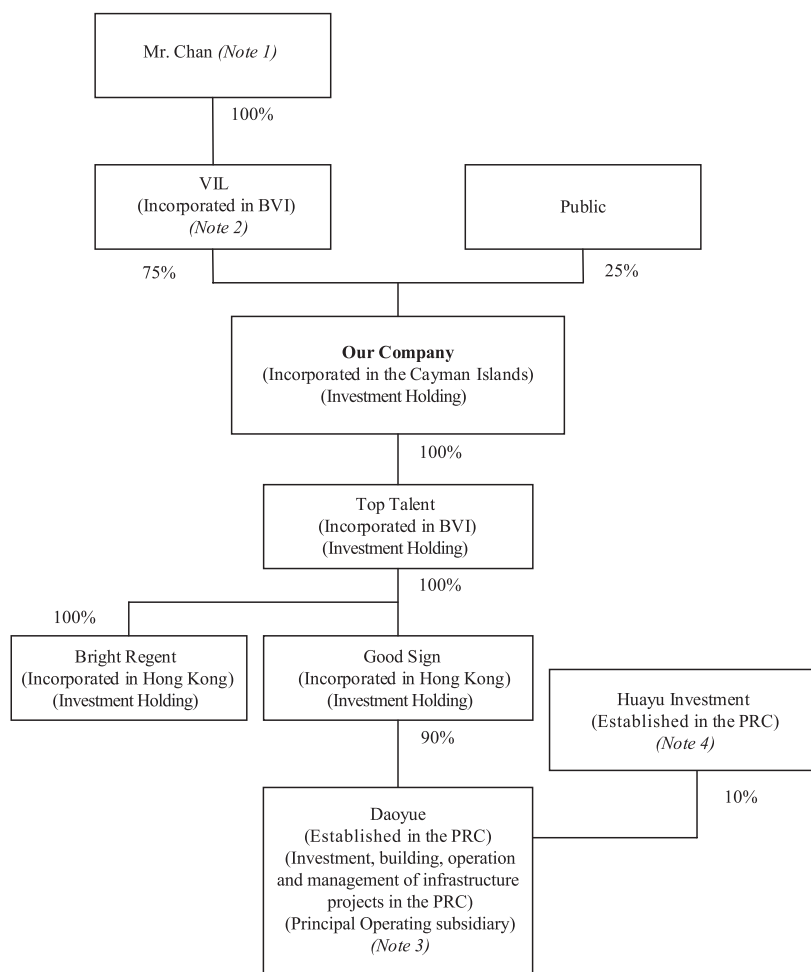
SAFE REGISTRATION

On October 21, 2005, the SAFE promulgated The Notice of the SAFE on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Vehicles (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the “SAFE Notice”), which became effective on November 1, 2005. According to the SAFE Notice, special purpose vehicle (特殊目的公司) refers to the offshore company established or indirectly controlled by the PRC residents for the special purpose of carrying out financing of their assets or equity interest in PRC domestic enterprise. Prior to the establishing or assuming control of such special purpose vehicle, PRC domestic residents must complete the overseas investment foreign exchange registration procedures with the relevant local branches of SAFE. Our PRC Legal Advisers have advised us that, as Mr. Chan has been a permanent resident of Hong Kong since March 5, 1998, Mr. Chan does not need to complete the overseas investment foreign exchange registration under the SAFE Notice. In addition, we have verbally confirmed with the relevant branch of the SAFE that a Hong Kong permanent resident is not required to complete the overseas investment foreign exchange registration under the SAFE Notice.

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OUR GROUP STRUCTURE UPON LISTING

The following diagram sets out the shareholding structure of our Group after the Reorganisation and immediately after the Share Offer and assuming the Over-allotment Option is not exercised:



Notes:

1. Mr. Chan is our Chairman and an executive Director of our Company.
2. Mr. Chan beneficially and directly holds the entire issued share capital of VIL.
3. Daoyue is the project company which is undertaking the construction of the Sui-Yue Expressway (Hunan Section) and will manage and operate the same upon completion of the construction. Since Huayu Investment is controlled by Mr. Chan, the Ultimate Controlling Shareholder, and Huayu Investment holds 10% equity interest of Daoyue, Daoyue will become a connected person of our Company upon Listing pursuant to the Listing Rules.
4. Mr. Chan is indirectly holding 90.67% of the equity interest in Huayu Investment and the remaining 9.33% of the equity interest in Huayu Investment is held indirectly by Independent Third Parties as to an aggregate of 7.94% by four PRC individual investors and 1.39% by a PRC state-owned enterprise established in Yunan.