
FINANCIAL INFORMATION

This section should be read in conjunction with our audited financial information, including the notes thereto, as set out in the section headed “Accountants’ Report” in Appendix I to this prospectus. This prospectus contains certain forward-looking statements relating to our plans, objectives, expectations and intentions, which involve risks and uncertainties. Our financial condition could differ materially from those discussed in this prospectus. For factors that could cause or contribute to such differences, please refer to the section headed “Risk Factors” and elsewhere in this prospectus.

OVERVIEW

The 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.

We obtained the concession right for a period of 27 years (excluding construction period) to invest, build, operate and maintain the Sui-Yue Expressway (Hunan Section) exclusively pursuant to the Concession Agreement. Our Group’s interests in Sui-Yue Expressway (Hunan Section) is held through Daoyue, a Sino-foreign equity joint venture established pursuant to the JV Contract and according to applicable PRC laws, which equity interest is held as to 90% by our Group and as to 10% by Huayu Investment. The Concession Agreement follows the “build-operate-transfer” or “BOT” model. At the expiration of the concession period, the right to operate and all fixed assets associated with the Sui-Yue Expressway (Hunan Section) will be transferred to the responsible governmental authorities at nil consideration. We will operate the Sui-Yue Expressway (Hunan Section) once it is completed and open to traffic.

The Sui-Yue Expressway (Hunan Section) is currently under construction and is planned to be completed by the end of 2011. Our Group divided the construction of the main structure such as roadbeds and interchange bridges into four sections. Our Group has entered into construction contracts with different contractors for the construction of three sections and will enter into a construction contract with another contractor for the construction of the last section in due course. We selected the contractors for the construction of the three sections through a public tender process which, according to our PRC Legal Advisers, is legal and effective. All the construction contracts above were entered into on fixed price terms, adjustable according to the market price of the construction raw materials. All the construction contracts above provide that any variation of the agreed work and the price for such variation must be approved by Daoyue, and that the cost of repairing any construction defects are to be borne by the relevant contractor during the relevant warranty period. To increase the protection for Daoyue, Daoyue will retain 5% of the construction price as quality assurance fee during the relevant warranty period. If the contractors fail to repair any construction defects satisfactorily during the relevant warranty period, Daoyue will use the quality assurance fee to repair the construction defects.

Before the commencement of commercial operation of the Sui-Yue Expressway (Hunan Section), it is expected that our Group would continue to incur expenses without generating cash revenue from toll road operation and our Group recorded only non-cash revenue from construction work

FINANCIAL INFORMATION

under service concession arrangement as turnover of our Group. As such our Group is supposed to record loss before the completion of the Sui-Yue Expressway (Hunan Section). Our Group expects to complete construction of the Sui-Yue Expressway (Hunan Section) and start commercial operation of it by the end of 2011, after which revenue in the form of toll fees and other ancillary revenues will be expected to be generated. After commercial toll road operation, it is expected that our Group will have substantial cashflows generated from the Sui-Yue Expressway (Hunan Section) project. Our Group may also explore to acquire or participate in expressways or other infrastructure projects in the PRC which, if materialized, could provide revenue and earnings to our Group.

SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENT

The financial information presented in this section presents the combined financial performance of our Group for each of the years in the three years period ended December 31, 2006, 2007, 2008 and the six months period ended June 30, 2009 on the basis that our Company, for this purpose, is regarded as a continuing entity and that the relevant reorganisation had been completed as at the beginning of the Track Record Period and that the business of our Group had been conducted by our Company throughout the Track Record Period as that are related to entities under common control. The measurement basis used in the preparation of the Financial Information is the historical cost basis.

The financial information presented in this section has been prepared with accounting policies which conform to the Hong Kong Financial Report Standards (“HKFRSs”), and the preparation of the financial information requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The accounting policies used have been applied consistently to all periods during the Track Record Period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Significant accounting policies and judgements made by management in the application of HKFRSs that have significant effect on the financial information and major sources of estimates are discussed below.

Intangible assets – service concession arrangement

Our Group has entered into contractual service arrangement with local government authorities for its participation in the construction, operation and management of an expressway in the PRC. Our Group carries out the construction of an expressway and receives in exchange for the right to operate the expressway concerned and the entitlement to toll fees collected from users of the concession infrastructure.

FINANCIAL INFORMATION

Our Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. The concession grantor has not provided any contractual guarantee in respect of the amounts of construction costs incurred to be recoverable. Intangible assets received as consideration for providing construction work and project management services in a service concession arrangement are measured at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is measured at cost less accumulated amortisation and any impairment losses.

Land collection costs incurred in conjunction with the service concession arrangement are recognised as intangible assets acquired under the service concession arrangement.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation is calculated to write off cost of intangible assets arising from a service concession arrangement on a straight-line basis over the estimated useful life, which is the period when it is available for use to the end of the concession period. Where an item of infrastructure assets included in the intangible asset arising from a service concession arrangement has a different period of expected future economic benefits flowing to our Group than the concession period, it is amortised separately. Both the period and method of amortisation are reviewed annually.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to our Group and the revenues and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

- (i) *Revenue from construction work and project management services under the service concession arrangement*

Revenue from construction work and project management services under the service concession arrangement is measured at the fair value of the consideration received or receivable, where total income and expenses associated with the construction contract and the stage of completion can be determined reliably. The stage of completion is measured by reference to the construction costs and project management fees incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

It is expected that the revenue from construction work and project management services under the service concession arrangement will cease to be recognised upon the completion of the construction of the Sui-Yue Expressway (Hunan Section), which is estimated to be by late 2011.

FINANCIAL INFORMATION

(ii) *Interest income*

Interest income from bank deposits is recognised as it accrues using the effective interest method.

Maintenance

Under the Concession Agreement, the Group will assume responsibility for maintenance of the Sui-Yue Expressway (Hunan Section). However, the operation of Sui-Yue Expressway (Hunan Section) has not yet commenced. The provision for maintenance will be recognised upon the commencement of the expressway. We expect that such maintenance costs will be recognised as provisions according to the requirements of HKAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provision for maintenance obligations are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

Property, plant and equipment

Property, plant and equipment are stated in the combined balance sheets at cost less accumulated depreciation and impairment losses. Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

—	Motor vehicles	5 years
—	Furniture and fixtures	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Impairment of assets

(i) *Impairment of receivables*

Receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is measured as the difference between their carrying amounts and the present value of estimated future cash flows, discounted at their original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of our Group about events that have an impact on the asset's estimated cash flows such as significant financial difficulty of the debtor. Impairment losses are reversed if in a subsequent period the amount of the impairment loss decreases.

FINANCIAL INFORMATION

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets – service concession arrangement; and
- non-current prepayments.

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

Receivables

Receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Payables

Payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

FINANCIAL INFORMATION

Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case they are recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arose on initial recognition of assets and liabilities, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised. The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted. The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

FINANCIAL INFORMATION

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Significant accounting estimates and judgements

Our Group believes the followings involve the most significant judgements and estimates used in the preparation of our financial information. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment

If circumstances indicate that the carrying amount of property, plant and equipment and intangible assets may not be recoverable, these assets may be considered “impaired” and an impairment loss may be recognised in profit or loss. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, the expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of future toll revenue and the amount of operating costs. Our Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of toll revenue and the amount of operating costs, and discount rate.

There has been no impairment provision during the Track Record Period.

FINANCIAL INFORMATION

(ii) *Depreciation and amortization*

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives after taking into account the estimated residual value. Intangible assets in relation to service concession arrangement are amortised on a straight-line basis over the concession period. Our Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense and amortisation charge to be recorded during any reporting period. The useful lives are based on the industry practice on similar assets. The depreciation expense and amortisation charge for future periods are adjusted if there are significant changes from previous estimates.

There has been no amortization of the intangible assets for the Track Record Period. This is because the Sui-Yue Expressway (Hunan Section) is still under construction.

(iii) *Revenue from construction work and project management services under the service concession arrangement*

Revenue from construction work and project management services under the service concession arrangement is measured at the fair value of the consideration received or receivable, where total income and expenses associated with the construction contract and the stage of completion can be determined reliably. The stage of completion is measured by reference to the construction costs and project management fees incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

Revenue recognised under the service concession contract represented the total contract costs plus the estimated margin. The contract costs incurred up to the year/period end relate to all costs that are directly attributable to the construction. These costs include the design, inspection, evaluation and consultation costs directly related to the construction contract which is in accordance with the relevant accounting standard. In respect of the profit margin earned during the construction phase, our Directors are of the view that our Group's main role is that of a project management company with main responsibilities being liaison and co-ordination for under the construction project. The profit margin earned for a project management company is therefore estimated to be the amount which covers all expected operating and administrative expenses incurred during the construction phase (including the pre-construction work).

Due to the fact that there was no real cash inflow realised/realisable during the construction phase of the infrastructure assets under the service concession arrangement, in order to determine the construction revenue to be recognised during the Track Record Period, our Directors made estimates of the respective amounts by making reference to the management service fees derived from our Group's provision of project management services in relation to the Sui-Yue Expressway (Hunan Section) during the Track Record Period without taking into account the grant of the related toll road operating rights and entitlement to future toll revenues. Our Directors have drawn an analogy of the construction of toll road under the service concession arrangement as if our Group was providing project management services for the construction of toll road. Accordingly, construction revenue under the respective service concession arrangement is recognised at the total expected construction costs of the toll road plus management fees, which are computed at an estimated percentage of the costs.

FINANCIAL INFORMATION

In ascertaining the total construction costs, our Directors made estimates based on information available such as budgeted project costs, actual project costs incurred/settled to date, and relevant third party evidence such as signed construction contracts and their supplements, the related variation orders placed and the underlying construction and design plans. In ascertaining the amount of management fee, our Directors have made reference to the practice for determining management fee for our Group's project management services in relation to the Sui-Yue Expressway (Hunan Section) during the Track Record Period, whereby the fee is estimated by reference to the total estimated administrative and other expenses as a percentage on the total budgeted costs of the project. Based on the above, our Directors estimated that the percentage of management fee ranged from 2% to 2.5% for the Track Record Period. Actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

Our Group does not have any contractual obligations for maintaining and restoring the infrastructure during the Track Record Period. The obligation will be accounted for upon the formal commencement of the construction of the Sui-Yue Expressway (Hunan Section).

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and financial conditions have been, and/or will be affected by a number of factors, including those key factors set out below:

Toll rates

All toll rates for our Group's toll expressways are subject to the regulation of the relevant government authorities. Toll rates for the Sui-Yue Expressway (Hunan Section) require approval by the Hunan Provincial Government after the joint review and approval by the Hunan Provincial Price Bureau and Hunan Transportation Department. Factors to be taken into account by the governmental authorities when setting toll rates or approving rate changes include traffic flow, construction costs of the expressways, prospective recovery period of investment, loan repayment terms, inflation rate, management, operation and maintenance costs of the expressways and affordability to end-users. Daoyue can propose or apply for rate changes. However, there can be no assurance that the governmental authorities will approve a request to increase the toll rates in a timely manner or at all or that the governmental authorities will not at any time request a toll rate reduction.

Traffic volume

Revenue from our Group's Sui-Yue Expressway (Hunan Section) will principally depend upon the number of motor vehicles using such expressway. Traffic volume is directly and indirectly affected by a number of factors, including the availability, service, proximity and toll rate differentials of alternative roads, the existence of other means of transportation, including rail and waterway, fuel prices, taxation and environmental regulations.

FINANCIAL INFORMATION

The volume of traffic on a given toll road is also influenced by the basis and extent of the road's connection with other parts of the local and national highway network. There can be no assurance that future changes in the highway system and network in Hunan Province will not adversely affect the traffic volume on the Sui-Yue Expressway (Hunan Section).

Future growth in traffic volume is expected to depend on the continued economic growth and development policies of the PRC and in particular, Hunan Province. Any adverse changes in these economies may adversely affect the traffic volume on the Sui-Yue Expressway (Hunan Section).

Capital expenditures

Considerable capital expenditure is required for most road projects during the construction period and it generally takes several years for a project to be completed and to begin generating income. The construction period and the capital required to complete any given project may be affected by different factors, including shortages of construction materials, equipment and labour, bad weather conditions, natural disasters, disputes with workers or contractors, accidents, changes in government policies and other unforeseen difficulties or circumstances. Delay in completion of a particular project may result from any such events, resulting in cost overruns and loss of income. Significant delays and cost overruns in road construction may adversely affect the earnings and cashflow of a toll road operator. We plan to complete the construction of the Sui-Yue Expressway (Hunan Section) by the end of 2011. However, notwithstanding fixed price construction contracts, the Sui-Yue Expressway (Hunan Section) may experience cost overruns or delays in its completion and any significant cost overruns or delays in completion of the Sui-Yue Expressway (Hunan Section) project may adversely affect the results of operations of our Group.

After completion of the construction, as part of the obligation as operator of the Sui-Yue Expressway (Hunan Section) under the service concession arrangement, Daoyue will be responsible at its own cost for the maintenance and repair of Sui-Yue Expressway (Hunan Section) throughout the operating concession period. The maintenance and repair costs incurred in respect of the obligations to restore the infrastructure to a specific level of serviceability are recognised as liabilities of Daoyue and such liabilities are recognised upon the commencement of the toll road operation. The continuing repair and maintenance of any highway or bridge involves significant expenditure. There can be no assurance that our Group's operations and financial position may not be adversely affected at some time by significant unforeseen capital expenditure requirements.

Economic growth and change of economic conditions in the PRC

All of our Group's revenue has been and in future is expected to be derived within the PRC. Economic growth and other economic trends and factors in the PRC, therefore, have a direct effect on our operations. For the past years, the PRC government has implemented economic reform measures designed to develop and grow the PRC economy. The growth of the PRC economy has resulted in increased transportation needs, and we expect that continued growth of the PRC economy would have a positive impact on our results of operations. However, the historical economic growth of the PRC may not continue in the future. Any significant change in the economic situation of the PRC will affect our results of operations.

FINANCIAL INFORMATION

Government's transportation-related policies and requirements

Our Group's operations, along with those of other toll road operators in the PRC, are sensitive to changes in the PRC Government's policies relating to all aspects of the transportation sector, for example, provincial and municipal transportation networks, traffic regulation, licensing and registration of vehicles, transfers of operating rights, toll regime and the planning, development, construction and management of highways in the PRC. There is no assurance that changes in such policies would not have an adverse effect on the revenue or results of operations of our Group.

RESULTS OF OPERATIONS

The following table set out our Group's combined income statement over the Track Record Period which is extracted from the section headed "Accountants' Report" in Appendix I to this prospectus.

	Years ended December 31,			Six months ended June 30,	
	2006 <i>HK\$ '000</i>	2007 <i>HK\$ '000</i>	2008 <i>HK\$ '000</i>	2008 <i>HK\$ '000</i>	2009 <i>HK\$ '000</i>
				(unaudited)	
Turnover	1,874	5,573	10,080	1,530	23,988
Cost of construction services	(1,833)	(5,450)	(9,858)	(1,496)	(23,460)
Gross profit	41	123	222	34	528
Other revenue	6	46	126	35	39
Administrative expenses	(838)	(1,003)	(3,569)	(1,522)	(3,664)
Loss before taxation	(791)	(834)	(3,221)	(1,453)	(3,097)
Income tax benefit	271	168	831	372	487
Loss for the year/period	<u>(520)</u>	<u>(666)</u>	<u>(2,390)</u>	<u>(1,081)</u>	<u>(2,610)</u>
Attributable to:					
— Equity shareholders of the Company	(465)	(588)	(2,140)	(970)	(2,424)
— Minority interests	(55)	(78)	(250)	(111)	(186)
Loss for the year/period	<u>(520)</u>	<u>(666)</u>	<u>(2,390)</u>	<u>(1,081)</u>	<u>(2,610)</u>
Loss per share (HK\$)					
— Basic and Diluted	(Note) <u>(0.0016)</u>	<u>(0.0020)</u>	<u>(0.0071)</u>	<u>(0.0032)</u>	<u>(0.0081)</u>

Note: The calculation of basic loss per share for the Relevant Period is based on the net loss attributable to the ordinary equity shareholders of the Company for each of the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2008 and 2009 and 1 ordinary share of the Company issued on April 21, 2009 and 299,999,999 ordinary shares of the Company issued on November 30, 2009 as approved by the written resolutions of the sole shareholder of the Company passed on November 30, 2009 as if these shares were outstanding throughout the entire Relevant Period.

There were no dilutive potential ordinary shares during the Relevant Period and, therefore, diluted loss per share is equivalent to basic loss per share.

FINANCIAL INFORMATION

Description of Selected Income Statement Items

Turnover

We expect the turnover of our Group will substantially come from toll receipts collected at the toll plazas of the Sui-Yue Expressway (Hunan Section). Toll rates for the Sui-Yue Expressway (Hunan Section) will be subject to the approval of the Hunan Provincial Government after the joint review and approval by the Hunan Provincial Price Bureau and Hunan Transportation Department. Factors to be taken into account by the governmental authorities when setting toll rates or approving rate changes include traffic flow, construction costs of the expressways, prospective recovery period of investment, loan repayment terms, inflation rate, management, operation and maintenance costs of the expressways and affordability to end-users. The formula for the toll rates is expected to be in the form of a rate per km traveled (行駛里程) based on vehicle classification and, if the vehicle is a goods-carrying vehicle (including vehicles carrying both passengers and goods), a rate based on the weight of the goods carried and per km traveled. Toll receipts are therefore principally dependent on traffic volume by vehicle categories, applicable toll rates, distance traveled and weight of goods carried by the vehicle (if applicable).

We expect to generate a comparatively small amount of additional revenues from a combination of franchises for shopping spaces, convenient stores, restaurants, motels, gas stations and garages at the service centre, rescue services and advertising boards.

Up to the Latest Practicable Date, our Group has not recorded any turnover relating to toll receipts as the Sui-Yue Expressway (Hunan Section) is still under construction and our Group has not commenced its operation.

Turnover during the Track Record Period represented revenue from construction work and project management under the Concession Agreement measured at the fair value of the consideration received or receivable.

Cost of construction services

During the Track Record Period, cost of construction services represented the deemed cost of our Group to generate construction revenues which comprised the costs incurred by our Group for the purpose of obtaining the concession right relating to the Concession Agreement, including payments for inspection, evaluation, design and consultancy fees and other expenses but excluding land collection cost.

Other revenue

During the Track Record Period, other revenue mainly represented interest income from bank deposits of our Group.

FINANCIAL INFORMATION

Administrative expenses

During the Track Record Period, administrative expenses primarily included salaries, consultancy fees, office expenses, rent, travelling and motor vehicle expenses, entertainment expenses, decoration and maintenance, expenses for work commencement and mobilization ceremony, and other operating expenses incurred for the initiation and promotion of the Sui-Yue Expressway (Hunan Section) project. However, during the Track Record Period, all of our Directors, except Ms. Mao Hui, agreed to waive their salaries in order to enhance the capital base of our Group and facilitate our Group's expansion. After the Listing, it is expected that our Directors will receive director's remuneration determined by reference to market rates as per their respective directors' service contracts.

Income tax benefit

Pursuant to the rules and regulations of the Cayman Islands and BVI, our Group is not subject to any income tax in the Cayman Islands and BVI. In addition, no provision has been made for Hong Kong profits tax as our Group did not have assessable profits subject to Hong Kong profits tax during the Track Record Period.

Pursuant to the income tax rules and regulations of the PRC, Daoyue is liable to PRC income tax at a rate of 33% for the period from December 22, 2006 (date of establishment) to December 31, 2006 and the year ended December 31, 2007. On March 16, 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law which took effect on January 1, 2008. As a result of the Corporate Income Tax Law, the income tax rate applicable to Daoyue was reduced from 33% to 25% with effect from January 1, 2008. No provision has been made for PRC Corporate Income Tax as our Group did not have assessable profits subject to PRC Corporate Income Tax during the Track Record Period.

During the Track Record Period, our Group recorded deferred tax credit arising from tax losses as our Group incurred losses for project initiation and promotion for the Sui-Yue Expressway (Hunan Section).

Management's Discussion and Analysis of Financial Results

Comparison for the six months ended June 30, 2009 and June 30, 2008

Turnover and cost of construction services

Our Group continued to work on project promotion, preparation and planning for the Sui-Yue Expressway (Hunan Section) without recording any toll revenue. Turnover during the Track Record Period represented revenue from construction work and project management under the Concession Agreement. Our turnover increased from approximately HK\$1,530,000 for the six months ended June 30, 2008 by approximately HK\$22,458,000 or 14.7 times to approximately HK\$23,988,000 for the six months ended June 30, 2009. Correspondingly, our cost of construction services increased

FINANCIAL INFORMATION

from approximately HK\$1,496,000 for the six months ended June 30, 2008 by approximately HK\$21,964,000 or 14.7 times to approximately HK\$23,460,000 for the six months ended June 30, 2009. Such increases were mainly because the preparation and construction of the Sui-Yue Expressway (Hunan Section) were implemented by us in a much larger scale in first half of 2009.

Other revenue

We recorded other revenues which represented interest income from bank deposits of approximately HK\$35,000 and HK\$39,000 for the six months ended June 30, 2008 and the six months ended June 30, 2009 respectively, as derived from our cash deposited in banks.

Administrative expenses

Administrative expenses increased from approximately HK\$1,522,000 for the six months ended June 30, 2008 by approximately HK\$2,142,000 or 140.7%, to approximately HK\$3,664,000 for the six months ended June 30, 2009. This was mainly because, as we developed the Sui-Yue Expressway (Hunan Section) project at a more advanced stage in 2009, our Group employed increasingly more resources for the project and our salary, office expenses, rent, depreciation and other expenses increased significantly in 2009.

Income tax benefit and loss for the year

As our Group made further progress in the Sui-Yue Expressway (Hunan Section) project, we also incurred more expenses. However, in 2009 our Group still has not commenced toll road operation. Accordingly, our loss for the six months ended June 30, 2009 increased from approximately HK\$1,081,000 for the six months ended June 30, 2008 by HK\$1,529,000 or 141.4% to approximately HK\$2,610,000 for the six months ended June 30, 2009. Also, due to a larger loss before taxation for the six months ended June 30, 2009, we recorded deferred tax credit arising from the resulted tax loss and temporary differences arise from accumulated pre-operating expenses of approximately HK\$487,000 for the six months ended June 30, 2009, which represented an increase of approximately HK\$115,000 or 30.9% as compared to that for the six months ended June 30, 2008 of approximately HK\$372,000.

Comparison for the year ended December 31, 2008 and December 31, 2007

Turnover and cost of construction services

During the Track Record Period, our Group continued to work on project promotion and planning for the Sui-Yue Expressway (Hunan Section) and accordingly we did not record any toll revenue.

Turnover during the Track Record Period represented revenue from construction work and project management under the Concession Agreement. Our turnover increased from approximately HK\$5,573,000 for the year 2007 by approximately HK\$4,507,000 or 80.9% to approximately HK\$10,080,000 for the year 2008. Correspondingly, our cost of construction services increased

FINANCIAL INFORMATION

from approximately HK\$5,450,000 for the year 2007 by approximately HK\$4,408,000 or 80.9% to approximately HK\$9,858,000 for the year 2008. Such increases were mainly because the preparation-stage construction work of the Sui-Yue Expressway (Hunan Section) were implemented by us in a much larger scale in 2008.

Other revenue

We recorded other revenue of approximately HK\$126,000 for the year 2008 which mainly comprised interest from bank deposits. The increase in other revenue of approximately HK\$80,000, or approximately 173.9%, as compared to other revenue of HK\$46,000 for the year 2007 was because of the increase in cash deposited in banks by our Group as a result of the increase in paid-in capital (recorded as other reserve) of Daoyue of RMB50 million in May 2008.

Administrative expenses

Administrative expenses increased from approximately HK\$1,003,000 for the year 2007 by approximately HK\$2,566,000 or 255.8%, to approximately HK\$3,569,000 for the year 2008. This was mainly because, as we developed the Sui-Yue Expressway (Hunan Section) project at a more advanced stage, our Group employed increasingly more resources for the project and our consultancy fees, office expenses, rent, motor vehicle expenses, entertainment expenses and other expenses increased significantly in 2008. In addition, we also spent approximately HK\$791,000 for a work commencement and mobilization ceremony as preparation-stage construction work commenced in June 2008.

Income tax benefit and loss for the year

As our Group incurred more expenses during the course of project promotion for the Sui-Yue Expressway (Hunan Section) but has not commenced toll road operation, our loss for the year increased from approximately HK\$666,000 for the year 2007 by HK\$1,724,000 or 259% to approximately HK\$2,390,000 for the year 2008. In addition, due to a larger loss before taxation for the year 2008, we recorded deferred tax credit arising from the resulted tax loss and temporary differences arise from accumulated pre-operating expenses of approximately HK\$831,000 for the year 2008, which represented an increase of approximately HK\$663,000 or 394.6% as compared to that for the year 2007 of approximately HK\$168,000.

Comparison for the year ended December 31, 2007 and December 31, 2006

Turnover and cost of construction services

The principal activities of our Group are construction, operation and management of an expressway in the PRC. During the Track Record Period, the expressway was under construction and has not commenced its operation.

FINANCIAL INFORMATION

Turnover during the Track Record Period represented revenue from construction work and project management under the Concession Agreement. Our turnover increased from approximately HK\$1,874,000 for the year 2006 by approximately HK\$3,699,000 or 197.4% to approximately HK\$5,573,000 for the year 2007. Correspondingly, our cost of construction services increased from approximately HK\$1,833,000 for the year 2006 by approximately HK\$3,617,000 or 197.3% to approximately HK\$5,450,000 for the year 2007. Such increases were mainly because the Sui-Yue Expressway (Hunan Section) project was at a relatively initial stage in 2006 and our Group achieved more progress in the preparation for the Sui-Yue Expressway (Hunan Section) in 2007.

Other revenue

We recorded other revenues which represented interest income from bank deposits of approximately HK\$6,000 and HK\$46,000 for the year 2006 and the year 2007 respectively. The bank interest income was derived from our cash deposited in banks after capital contribution by our shareholders to Daoyue in 2006.

Administrative expenses

Administrative expenses increased from approximately HK\$838,000 for the year 2006 by approximately HK\$165,000 or 19.7%, to approximately HK\$1,003,000 for the year 2007, mainly due to increased business activities in 2007 to prepare for the commencement of construction of the Sui-Yue Expressway (Hunan Section) in 2008.

Income tax benefit and loss for the year

After establishment of Daoyue in December 2006, our Group was engaged in more activities and incurred more expenses in relation to project initiation and promotion for the Sui-Yue Expressway (Hunan Section) in 2007. Accordingly, our loss for the year increased from approximately HK\$520,000 for the year 2006 by HK\$146,000 or 28.1% to approximately HK\$666,000 for the year 2007. However, although we recorded a larger loss before taxation for the year 2007, due to the implementation of the Corporate Income Tax Law of the PRC which reduced the income tax rate applicable to Daoyue from 33% to 25%, the cumulative deferred tax credit balances arising from tax losses and temporary differences arise from accumulated pre-operating expenses was adjusted downwards. This resulted in a deferred tax credit of approximately HK\$168,000 for the year 2007, which represented a decrease of approximately HK\$103,000 or 38.0% as compared to that for the year 2006 of approximately HK\$271,000.

ANALYSIS ON CERTAIN BALANCE SHEET ITEMS

Property, plant and equipment and Prepayments (non-current assets)

During the Track Record Period, our Group was mainly engaged in the project initiation and promotion of the Sui-Yue Expressway (Hunan Section) and the construction of the expressway is still in progress. Accordingly, during the Track Record Period, our Group had not yet acquired

FINANCIAL INFORMATION

the titles of the relevant material assets in relation to the expressway including buildings and other fixed assets, but made prepayments to 4 independent contractors in 2008 for the civil engineering construction of the expressway and related construction safety monitoring services. As at December 31, 2008 and June 30, 2009, our Group recorded prepayments of approximately HK\$29,002,000 and HK\$45,208,000 respectively in this respect.

To facilitate our daily business, our Group gradually acquired certain furniture and fixtures for our rented office and motor vehicles for business travel as we continued for the project initiation and promotion of the Sui-Yue Expressway (Hunan Section) during Track Record Period. As at December 31, 2006, 2007 and 2008 and June 30, 2009, our Group had motor vehicles, furniture and fixtures worth approximately HK\$9,000, HK\$244,000, HK\$1,968,000 and HK\$1,903,000 respectively.

Intangible assets – service concession arrangement

Pursuant to the Concession Agreement, Daoyue was granted by the relevant PRC government authorities the concession right to invest, build, operate and maintain the Sui-Yue Expressway (Hunan Section). The Concession Agreement follows the “build-operate-transfer” or “BOT” model, under which our Group will have a concession period of 27 years (excluding construction period) to operate the Sui-Yue Expressway (Hunan Section) exclusively and receive relevant toll fees and related revenues. At the expiration of concession period, the concession right to operate and all fixed assets associated with the Sui-Yue Expressway (Hunan Section) will be transferred to the responsible government authorities at nil consideration. The Concession Agreement does not contain a renewal option.

During the Track Record Period, as we continued to develop the Sui-Yue Expressway (Hunan Section) project, for the purpose of obtaining the concession rights relating to the Concession Agreement, our Group has made payments for inspection, evaluation, design and consultancy fees in addition to incurring certain conference expenses and salaries of our employees. The Group recognised land collection costs amounting to approximately HK\$71,199,000 and HK\$111,095,000 for the year ended December 31, 2008 and for the six months period ended June 30, 2009 respectively in relation to, among other things, compensation for land and settlement for original residents, demolition of buildings, plantation recovery, farmland reclamation, and related processing fees and costs, as part of the intangible assets - service concession arrangement. As at December 31, 2006, 2007 and 2008 and June 30, 2009, our Group recorded intangible assets regarding service concession arrangement of approximately HK\$1,916,000, HK\$7,858,000, HK\$90,373,000 and HK\$226,223,000 respectively.

In accordance with our Group’s accounting policy, no amortization for the intangible assets in relation to the service concession arrangement was recognized during the Track Record Period as the Sui-Yue Expressway (Hunan Section) was not available for use yet.

FINANCIAL INFORMATION

Deferred tax assets

We recorded deferred tax assets of HK\$277,000, HK\$472,000, HK\$1,341,000 and HK\$1,833,000 respectively as at December 31, 2006, 2007 and 2008 and June 30, 2009, which arose from tax losses and temporary differences arise from accumulated pre-operating expenses incurred during the Track Record Period as our Group incurred expenses for project initiation and promotion for the Sui-Yue Expressway (Hunan Section) but did not yet generate revenues from toll road operations.

Prepayments and other receivables

We recorded prepayments and other receivables of HK\$93,000, HK\$6,069,000, HK\$385,000 and HK\$4,745,000 respectively as at December 31, 2006, 2007 and 2008 and June 30, 2009, which mainly arose from operating expenses in relation to our project initiation and promotion activities during the Track Record Period, including an advance to a third party of approximately RMB5,000,000 which was fully repaid subsequently and a prepayment for design fee of approximately RMB600,000 as at December 31, 2007. Our Group also made prepayments of approximately HK\$3,596,000 as at June 30, 2009 for professional fees in relation to the Listing. The advance to a third party of approximately RMB5,000,000 as at December 31, 2007 was due from an independent party, Xi'an Shunshilai Zhuque Zhiye Co., Ltd. (西安順時來朱雀置業有限公司), which was a business acquaintance of Huayu Investment. Such advance was made to it for temporary usage, interest free, and has no fixed term of repayment. Our PRC Legal Advisers have advised us that, although the advance to Xi'an Shunshilai Zhuque Zhiye Co., Ltd. did not comply with the General Provisions on Lending (貸款通則) promulgated by the People's Bank of China and effective as of August 1, 1996 (pursuant to which we may be subject to a penalty of between one time and five times the income gained in violation of the provisions and the People's Bank of China shall suppress the lending activity), since the lending relationship between our Group and Xi'an Shunshilai Zhuque Zhiye Co., Ltd. terminated already and so far our Group has not been investigated or penalized for such advance, the risk for our Group of being punished in connection with such advance is considered not high.

Amount due from/to a related party and controlling shareholder

At the early stage of our business and as a member of the Ultimate Controlling Shareholder's investment group, our Group was mainly focusing only on the project initiation and promotion of the Sui-Yue Expressway (Hunan Section), and we advanced part of our surplus capital not with immediate use to certain related companies during the Track Record Period. In this regard, we recorded the amount due from a related party of nil, HK\$42,888,000, HK\$10,999,000 and nil respectively as at December 31, 2006, 2007 and 2008 and June 30, 2009.

FINANCIAL INFORMATION

During the Track Record Period, the Ultimate Controlling Shareholder and certain related parties also paid operating expenses on our behalf, which gave rise to the balances of the amounts due to a related party and controlling shareholder. In addition, during the six months ended June 30, 2009, our Group obtained additional advance of approximately HK\$211,185,000 from the Ultimate Controlling Shareholder, which was mainly used for the payment to Huayu Investment for the reorganization of 90% interest in Daoyue from Huayu Investment to Good Sign. Such advance from the Ultimate Controlling Shareholder has been assigned to our Company on December 7, 2009 and became intra-group loans. In this regard, we recorded the amount due to a related party of HK\$2,825,000, HK\$6,658,000, nil and nil, and the amount due to controlling shareholder of HK\$13,000, HK\$20,000, HK\$349,000 and HK\$211,534,000 as at December 31, 2006, 2007 and 2008 and June 30, 2009 respectively.

All of the amounts due from/to related companies and the Ultimate Controlling Shareholder were unsecured, interest-free and repayable on demand, and they have been assigned, recovered or settled prior to the Listing.

Accruals and other payables

We had accruals and other payables of approximately HK\$27,949,000 and HK\$30,974,000 as at December 31, 2008 and June 30, 2009 respectively, which comprised contract guarantee deposits of approximately HK\$27,895,000 and HK\$28,524,000 as at December 31, 2008 and June 30, 2009 respectively. The contract guarantee deposits were provided by our contractors in relation to the preparation-stage construction work of the Sui-Yue Expressway (Hunan Section). As the contract guarantee deposits were arisen from normal operating cycles of our Group, they were classified as current liabilities in accordance with Hong Kong Financial Reporting Standards. Remaining balances of the accruals and other payables represented mainly accruals for our operating expenses during the Track Record Period.

Long-term bank loan

Our Group has borrowed bank loan during the six months ended June 30, 2009 to finance the Sui-Yue Expressway (Hunan Section) project. As at June 30, 2009, we recorded non-current long-term bank loan of approximately HK\$170,520,000 which represented the loan amount drawn then, pursuant to the loan agreement with China Merchants Bank dated April 30, 2009 for a RMB denominated fixed assets loan of total amount of RMB1.10 billion. Further details of the bank loan are set out in the paragraph headed “Financing Arrangement for the Sui-Yue Expressway (Hunan Section) Project” in this section.

FINANCIAL INFORMATION

FINANCIAL RESOURCES AND LIQUIDITY

Financial Resources

During the Track Record Period, we financed our operations and capital expenditures by our cashflow from financing activities which were mainly derived from capital contribution by the Ultimate Controlling Shareholder and to a lesser extent by the minority shareholder of Daoyue. The major capital contributions during the Track Record Period were the first capital injection to Daoyue of RMB50 million (approximately HK\$49,666,000) in 2006 and two subsequent capital injections to Daoyue of RMB50 million (approximately HK\$55,738,000) in 2008 and RMB100 million (approximately HK\$113,420,000) in January 2009. We advanced part of our surplus capital with no immediate use to certain related companies during the Track Record Period, all of which were repaid to us before the Listing. As at June 30, 2009 and October 30, 2009, we had audited cash and cash equivalent balances of approximately HK\$149,525,000 and unaudited cash and cash equivalent balances of approximately HK\$314,205,000 respectively.

In addition to the capital already injected to our Group during the Track Record Period, we expect to finance our future working capital requirements and capital expenditures by further capital injection by the shareholders of Daoyue, bank loans, proceeds from the Share Offer, and when the Sui-Yue Expressway (Hunan Section) commences commercial operations, the revenues generated from toll road operation.

Net Current Assets/Liabilities

During the Track Record Period, as we were still in our early stages of business, our Group incurred various expenses for project initiation and promotion for the Sui-Yue Expressway (Hunan Section) and did not generate any revenues from toll road operation. Although we recorded net losses for both year 2006 and year 2007, with the capital injection to Daoyue in year 2006, our Group maintained net current assets of approximately HK\$47,065,000 and HK\$43,752,000 as at December 31, 2006 and 2007 respectively.

Since 2008, our Group made substantial payments for, among other things, land collection, inspection, evaluation, design and consultancy fees in connection with obtaining the concession rights relating to the Concession Agreement, which were capitalized as non-current assets. Meanwhile, as we appointed contractors to carry out the construction of the Sui-Yue Expressway (Hunan Section), we received contract guarantee deposits from certain contractors for aggregate amounts of approximately HK\$27,895,000 and HK\$28,524,000 for the year ended December 31, 2008 and the six months ended June 30, 2009 respectively, which were recorded as accruals and other payables as part of our current liabilities. In addition, our Group obtained loans from the Ultimate Controlling Shareholder mainly for the payment to Huayu Investment for the reorganization

FINANCIAL INFORMATION

of 90% interest in Daoyue from Huayu Investment to Good Sign, which resulted in amounts due to controlling shareholder of approximately HK\$211,534,000 as at June 30, 2009 as part of our current liabilities. As a result, we recorded net current liabilities position of approximately HK\$13,028,000 and HK\$88,238,000 as at December 31, 2008 and June 30, 2009 respectively. However, as such contract guarantee deposits are expected not to be settled until completion of the relevant contract work by the contractors, and all the amounts due to controlling shareholder from the subsidiaries of the Company have been assigned to the Company on December 7, 2009, we do not anticipate any liquidity problem despite our net current liabilities position.

As our Group has not commenced toll road operation during the Track Record Period, we did not have trade receivables and trade payables.

The net current assets/(liabilities) position of our Group during the Track Record Period and as at October 31, 2009 (with unaudited figures) is illustrated by the following breakdown:

	As at December 31,			As at	As at
	2006	2007	2008	June 30,	October 31
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2009</i>	<i>2009</i>
				<i>HK\$'000</i>	<i>HK\$'000</i>
					(unaudited)
Current assets					
Prepayments and other receivables	93	6,069	385	4,745	7,820
Amount due from a related party	—	42,888	10,999	—	—
Cash and cash equivalents	49,824	1,486	3,886	149,525	314,205
	<u>49,917</u>	<u>50,443</u>	<u>15,270</u>	<u>154,270</u>	<u>322,025</u>
Current liabilities					
Accruals and other payables	14	13	27,949	30,974	38,014
Amount due to controlling shareholder of the Company	13	20	349	211,534	297,388
Amount due to a related party	2,825	6,658	—	—	—
	<u>2,852</u>	<u>6,691</u>	<u>28,298</u>	<u>242,508</u>	<u>335,402</u>
Net current assets/(liabilities)	<u>47,065</u>	<u>43,752</u>	<u>(13,028)</u>	<u>(88,238)</u>	<u>(13,377)</u>

FINANCIAL INFORMATION

Cashflows during the Track Record Period

Our Group's cashflows during the Track Record Period were summarized in the following table:

	Years ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Net cash generated from/(used in) operating activities	1,999	(3,589)	26,489	1,492	(721)
Net cash used in investing activities	(1,841)	(5,661)	(111,802)	(12,045)	(148,587)
Net cash generated from/(used in) financing activities	49,666	(42,888)	87,627	17,755	294,939
Net increase/(decrease) in cash and cash equivalents	<u>49,824</u>	<u>(52,138)</u>	<u>2,314</u>	<u>7,202</u>	<u>145,631</u>

Cashflows from operating activities

Our Group recorded net cash inflows from operating activities although we have been in a loss position during the Track Record Period as we continued to incur expenses for project initiation and promotion for the Sui-Yue Expressway (Hunan Section). For the year 2006 and the year 2007, our operating cashflow position was enhanced mainly due to the increase in the amounts due to related companies of approximately HK\$2,825,000 and HK\$3,833,000 respectively as certain related companies paid operating expenses on our behalf. For the year 2008, we generated cash inflow from operating activities mainly due to the increase in accruals and other payables of approximately HK\$27,936,000 as we received guarantee deposits from contractors when we commenced the construction of the Sui-Yue Expressway (Hunan Section). For the six months ended June 30, 2009, our Group enhanced operating cashflow position as a result of increase in the amounts due to controlling shareholder of HK\$6,640,000.

Our net cash generated from/(used) in operating activities for the year 2006, 2007, 2008 and the six months ended June 30, 2009 were approximately HK\$1,999,000, HK\$(3,589,000), HK\$26,489,000 and HK\$(721,000) respectively.

FINANCIAL INFORMATION

Cashflows from investing activities

As we continued to make capital expenditures in relation to the Sui-Yue Expressway (Hunan Section), our Group recorded net cash outflows from investing activities during the Track Record Period, amounting to approximately HK\$1,841,000, HK\$5,661,000, HK\$111,802,000 and HK\$148,587,000 respectively for the year 2006, 2007, 2008 and the six months ended June 30, 2009. Our cash outflows from investing activities increased during the Track Record Period as we advanced our development of the project and commenced the preparation-stage construction work of the Sui-Yue Expressway (Hunan Section) in 2008.

Our cash outflows from investing activities during the Track Record Period primarily reflected payments made for intangible assets in relation to obtaining the service concession arrangement for the Sui-Yue Expressway (Hunan Section), which amounted to approximately HK\$1,833,000, HK\$5,450,000, HK\$81,057,000 and HK\$132,293,000 respectively for the year 2006, 2007, 2008 and the six months ended June 30, 2009. We also made prepayments of approximately HK\$29,002,000 and HK\$16,206,000 to contractors for the preparation work for construction of the Sui-Yue Expressway (Hunan Section) for the year 2008 and the six months ended June 30, 2009 respectively leading to further cash outflows from investing activities for the year/period.

Cashflows from financing activities

For the year 2006, our Group recorded net cash inflows from financing activities of approximately HK\$49,666,000 which were derived from the first capital contribution of the shareholders of Daoyue to pay up its registered capital and finance our business.

Our Group advanced part of our surplus capital not with immediate use to certain related companies in year 2007, which led to net cash outflows from financing activities of approximately HK\$42,888,000 for the year.

During the year 2008, our Group received further capital contribution of approximately HK\$55,738,000 from the shareholders of Daoyue to increase Daoyue's registered capital to support the development of the Sui-Yue Expressway (Hunan Section). We also received approximately HK\$31,889,000 back from certain related companies. As a result of the above two events, we recorded net cash inflows from financing activities of approximately HK\$87,627,000.

During the six months ended June 30, 2009, our Group received further capital contribution of approximately HK\$113,420,000 from the shareholders of Daoyue to increase Daoyue's registered capital to support the development of the Sui-Yue Expressway (Hunan Section). We also received approximately HK\$10,999,000 from certain related companies. In addition, our Group started borrowing a long term bank loan from China Merchants Bank of approximately HK\$170,520,000. As a result of those events, we recorded net cash inflows from financing activities of approximately HK\$294,939,000.

FINANCIAL INFORMATION

Historical and Planned Future Capital Expenditure

During the Track Record Period, our Group has incurred capital expenditures in relation to obtaining the concession right, construction of the Sui-Yue Expressway (Hunan Section), and to a lesser extent, acquisition of motor vehicles, furniture and fixtures for our daily business use. It is expected that our Group will continue to make substantial capital expenditure for the development and construction of the Sui-Yue Expressway (Hunan Section) project.

The total planned project investment for the Sui-Yue Expressway (Hunan Section) is approximately RMB1.717 billion. We expect that further capital expenditures will be made by our Group to develop and construct the Sui-Yue Expressway (Hunan Section) and ancillary facilities. In addition, we also expect to acquire more fixed assets for office and daily business use. Our Group's planned capital future capital expenditures mainly include the following:

The following table sets forth our capital expenditures incurred in the year ended December 31, 2008 and six months ended June 30, 2009 and those estimated to be made in two and a half years ending December 31, 2011 in relation to the Sui-Yue Expressway (Hunan Section) project:

(RMB million)	Capital Expenditures Items	Year ending December 31, 2009				Year ending December 31, 2010	Year ending December 31, 2011	Total
		Year Ended December 31, 2008	6 months ended June 30, 2009	6 months from July 1 to December 31, 2009	Subtotal			
I	Construction	25.57	16.02	328.61	344.63	414.99	383.66	1,168.85
II	Equipment and machinery	1.61	0.10	0.38	0.48	5.00	24.88	31.97
III	Ancillary costs							
1	Relocation and related expenses	63.38	98.14	11.87	110.01	8.00	29.40	210.79
2	Project management fees	0.45	0.40	14.42	14.82	17.32	16.61	49.20
3	Research, testing, project assessment and preliminary expenses, etc.	8.3	15.90	5.70	21.60	0.50	10.83	41.23
4	Staff training	—	—	—	—	—	0.24	0.24
5	Project loan interest	—	0.79	7.59	8.38	21.78	43.98	74.14
	Subtotal:	72.13	115.23	39.58	154.81	47.60	101.06	375.60
IV	Contingency cost	—	4.71	21.48	26.19	28.06	26.20	80.45
V	Miscellaneous	—	1.50	2.90	4.40	0.62	—	5.02
	Total:	99.31	137.56	392.95	530.51	496.27	535.8	1,661.89

The total capital expenditures incurred by our Group up to the Latest Practicable Date is approximately RMB370 million.

Financing Arrangement for the Sui-Yue Expressway (Hunan Section) Project

The total estimated project investment for of the Sui-Yue Expressway (Hunan Section) is approximately RMB1.717 billion. Good Sign and Huayu Investment have obtained the approval from the Hunan Provincial Commerce Department to (a) increase the amount of total investment of Daoyue from RMB600 million to RMB1.717 billion and (b) contribute a further RMB400.95 million to the registered capital of Daoyue, thereby increasing the registered capital of Daoyue from

FINANCIAL INFORMATION

RMB200 million to RMB600.95 million. Good Sign and Huayu Investment have contributed 20% of the increased registered capital of Daoyue in August 2009 and Daoyue obtained a new business licence on September 17, 2009. The balance of 80% of the increased registered capital of Daoyue is expected to be contributed by Good Sign and Huayu Investment within two years after the issuance of the new business licence. Good Sign's remaining capital contribution to Daoyue is expected to come from the net proceeds from the Share Offer and the internal funding of our Group.

Approximately RMB1.10 billion is intended to be financed by bank loans to be borrowed by Daoyue. In this respect, Daoyue signed a loan agreement with Shenzhen Longgang Branch of China Merchants Bank on April 30, 2009 for a RMB denominated fixed assets loan of total amount of RMB1.10 billion. The principal terms of such loan are as follows:

Total loan amount	Not exceeding RMB1.10 billion
Use of loan proceeds	Restricted for construction of the Sui-Yue Expressway (Hunan Section) only
Loan term	18 years from May 8, 2009 to May 8, 2027
Drawdown period	Within 36 months after the loan agreement becoming effective
Drawdown	In multiple of RMB1 million but not less than RMB10 million with 7-day prior notice
Interest rate	Floating rate, reset for every 3-month period according to benchmark lending rate for a loan period over 5 years published by the People's Bank of China, adjusted down by 10%
Interest payment	Payable monthly on 20th every month
Guarantor	Huayu Investment (such guarantee to be released within three months after the Listing Date)
Security	To pledge the right of receiving tolls in relation to the Sui-Yue Expressway (Hunan Section), when such right is obtained by our Group
Financial covenants	(i) The Group is required to invest not less than 35% of the total investment in Sui-Yue Expressway (Hunan Section) (ii) The Group is required to maintain cash on hand with 130% of annual loan and interest repayment and obtain prior approval from the bank, before declaring any cash dividend or bonus during the repayment years from 2013 to 2027

For reference only, as at the Latest Practicable Date, the prevailing benchmark lending rate for a loan period over 5 years is set at 5.94% per annum as published by the People's Bank of China.

FINANCIAL INFORMATION

For the financial covenants, we are of the view that it may limit the total amount of debt financing of the Sui-Yue Expressway (Hunan Section) to 65% of the total investments and may affect the future cash dividend stream. However, we currently have no intention to change the financing structure of the Sui-Yue Expressway (Hunan Section) project. In addition, we are confident that our future cash flow will be sufficient to service the required loan and interest repayment from 2013 to 2027. We will conduct regular budgetary review for ensuring the above financial covenants being met. In addition, we have instituted an internal control procedure of reviewing whether the financial covenants are affected in the event of concluding any new loans.

Up to November 30, 2009, the aggregate loans drawn down by our Group amounted to RMB300 million.

We intend to make further capital contribution to Daoyue or secure further loan in the event that current financing arrangements turn out to be insufficient for the Sui-Yue Expressway (Hunan Section) project.

Repayment schedule

Repayment date (May 8 of the year)	Loan principal to be repaid (RMB million)
2013	10
2014	20
2015	30
2016	40
2017	50
2018	60
2019	70
2020	80
2021	90
2022	100
2023	110
2024	110
2025	110
2026	110
2027	110

Our Group has undertaken detailed feasibility study involving assessment of traffic flow, toll revenue, construction and financing costs before undertaking the Sui-Yue Expressway (Hunan Section) project. We have engaged professional parties in providing the necessary expert advice and assistance during the process. In particular, we have engaged the Hunan Provincial Communications Planning, Surveying and Designing Institute (湖南省交通規劃勘察設計院) for conducting the feasibility study of the project. For the purpose of the Listing, our Group has also engaged Parsons for conducting a traffic review for the Sui-Yue Expressway (Hunan Section). The Directors expect that the repayment of project loan would be funded by the toll revenue for the Sui-Yue Expressway (Hunan Section) project.

Working Capital

Our Directors are of the opinion that, after taking into account of, among other things, the banking facility of RMB1.10 billion arranged, the additional cash of HK\$216 million injected into our Group by the Ultimate Controlling Shareholder which has been completed on December 7, 2009 and the expected net proceeds from the Share Offer, our Group has sufficient working capital for our present requirements for the next 12 months from the date of this prospectus.

FINANCIAL INFORMATION

FINANCIAL RISK MANAGEMENT

Credit risk

Credit risk of our Group arises primarily from our Group's prepayments and other receivables and deposits with banks.

Our Group's exposure to credit risk is influenced mainly by the individual characteristics of each contractor for expressway construction. Individual credit evaluations are performed on all contractors. These evaluations focus on the contractor's past history of construction work performance and current ability to fulfill the contract, and take into account information specific to the contractor as well as pertaining to the economic environment in which the contractor operates. Our Group does not collect collateral in respect of prepayments and other receivables. Contract guarantee deposits of HK\$27,895,000 and HK\$28,524,000 recognised in accruals and other payables as at December 31, 2008 and June 30, 2009 respectively were received from major sub-contractors. Our Group also regularly monitors the construction progress.

We limit our exposure to credit risk by placing deposits with financial institutions that meet the established credit rating or other criteria. Given these high credit ratings, our Directors do not expect any counterparty to fail to meet its obligations in this respect.

Liquidity risk

Individual operating entities within our Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. Our Group's policy is to regularly monitor its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Interest rate risk

Our Group's interest rates risk arises primarily from cash at bank and interest bearing borrowings. Our Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements. Our Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and our Group does not use derivative financial instruments to hedge its debt obligations.

Foreign currency risk

Individual companies within our Group has limited foreign currency risk as most of the transactions are denominated in the functional currency of the operations in which they relate. However, as the principal subsidiary, Daoyue, mainly carried out transactions in RMB, therefore any appreciation or depreciation of HKD against RMB will affect our Group's financial position and be reflected in the exchange reserve.

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings and Banking Facilities

Our Group had bank borrowings of approximately HK\$341 million as at October 31, 2009. Our Group has obtained banking facilities of approximately RMB1.10 billion from China Merchants Bank (details of which are set out in the paragraph headed “Financing Arrangement for the Sui-Yue Expressway (Hunan Section) Project), approximately RMB800 million of which remained unutilized as at October 31, 2009. To finance the Sui-Yue Expressway (Hunan Section) project, it is expected that the remaining unutilized banking facilities will be drawn as and when necessary.

Amount due to the Ultimate Controlling Shareholder

As at October 31, 2009 our Group had an amount due to the ultimate controlling shareholder of approximately HK\$297 million.

On December 7, 2009, the ultimate controlling shareholder, Top Talent, Good Sign and Bright Regent entered into a deed of assignment with our Company, pursuant to which the ultimate controlling shareholder 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.

Securities

As at October 31, 2009, our Group’s banking facilities granted by China Merchants Bank of approximately RMB1.10 billion are secured by our interest and future cash flow in the Sui-Yue Expressway (Hunan Section) project.

Commitment

Capital commitments outstanding at December 31, 2006, 2007, 2008 and June 30, 2009 not provided for in our Group’s financial statements were as follows:

	As at December 31,			As at
	2006	2007	2008	June 30,
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Contracted for	588	21,222	636,005	766,215
Authorised but not contracted for	—	—	1,189,716	2,442,414
	<u>588</u>	<u>21,222</u>	<u>1,825,721</u>	<u>3,208,629</u>

The capital commitments represent the costs for the construction of the Sui-Yue Expressway (Hunan Section).

FINANCIAL INFORMATION

As at October 31, 2009, we had contracted capital commitment of approximately HK\$736 million and authorised but not contracted for capital commitment of approximately HK\$871 million which mainly related to the construction of the Sui-Yue Expressway (Hunan Section). We also had operating lease commitment mainly relating to the lease of the offices and staff dormitories currently being used by us amounting to approximately HK\$0.7 million as at October 31, 2009.

Guarantee and Contingent Liabilities

As at October 31, 2009, our Group did not have any material guarantee granted by us to any external party or contingent liability.

Disclaimer

Save as disclosed herein, apart from intra-group liabilities, payables relating to construction of the Sui-Yue Expressway (Hunan Section), our Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitment, hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at October 31, 2009.

DISCLOSURES UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, there is no circumstance which would give rise to a disclosure obligation under Rules 13.13 to 13.19 of the Listing Rules.

DISTRIBUTABLE RESERVE

Our Company was incorporated on April 21, 2009 and has not carried out any operation since incorporation. Accordingly, there was no reserve available for distribution to shareholders as at June 30, 2009.

NET TANGIBLE LIABILITIES

For illustrative purpose only, we have set out in Appendix II to this prospectus a statement of unaudited pro forma adjusted net tangible liabilities of our Group prepared in accordance with Rule 4.29 of the Listing Rules. Such statement is prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of our Group.

FINANCIAL INFORMATION

DIVIDEND AND DIVIDEND POLICY

Our Group has not distributed any dividend during the Track Record Period and up to the Latest Practicable Date. It is the present intention of our Directors that, subsequent to the Share Offer and after the completion of the construction and commencement of profitable operations of the Sui-Yue Expressway (Hunan Section), not less than 40% of our distributable profit would be distributed as dividends for each year. However, there is no assurance as to whether dividend distribution will occur as intended and our Directors would take into account of, among other things, our general business conditions, financial results, capital requirements and future plan to decide for dividend distribution.

PROPERTY INTEREST

As at the Latest Practicable Date, our Group did not own any property. Our Group's offices and staff quarters are currently housed in leased properties. Details relating to our property interests are set out in the section headed "Property Valuation" in Appendix V to this prospectus. Jones Lang LaSalle Sallmanns Limited, an independent property appraiser, has valued the properties leased by us as at September 30, 2009. The text of its letter, a summary of valuations and valuation certificates are set out in Appendix V to this prospectus.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in the financial or trading position of our Group since June 30, 2009, being the date to which our latest audited combined financial statements were made up.