

Principal Risks and Uncertainties

TOLL ROAD BUSINESS RISKS

Economic Environment

As the global economy remained in a period of profound restructuring, the domestic economy, despite showing signs of picking up, was still taking shape towards a new balance as a whole. Meanwhile, the unfavourable export trading conditions also affected Zhejiang, a province with heavy reliance on export trading. Growth in the traffic volume and toll revenue of the Group's expressways is expected to remain uncertain, creating uncertainties for the operations, financial conditions and operating results of the Group.



Roads Competition

Despite the opening of two expressways nearby, namely Shenjia Huhang Expressway and Zhuyong Expressway, the impacts of traffic diversion on the Group's two expressways were stabilized.

However, as Jiaying-Shaoxing Cross River Passage is scheduled to commence service in the second half of 2013, coupled with the opening of other new expressways nearby, it is expected that new traffic will be diverted to certain sections of Shanghai-Hangzhou-Ningbo Expressway. In face of the increasingly significant effects of traffic division due to the newly built expressways in Zhejiang province, we have implemented ETC (electronic toll collection) system in all toll stations and improved the quality of expressway service. We endeavoured to attract more traffic to the Group's expressways through improving the expressway bulletin and adopting various means of promotion and introduction to cope with the challenges arising from the unfavourable toll road business environment. Accordingly, we cannot be assured as to whether traffic volume to be generated on the Group's expressways will be maintained at the same levels as before or will increase in the future, or whether or not the operating results of the Group will be negatively affected.

Toll Policy

With the implementation of the toll waiver policy on small passenger vehicles on key festivals and holidays by the PRC government on September 30, 2012, the expressway operators who charge for toll are negatively affected. In addition, due to the introduction of a special project by five ministries and commissions for the rectification of the toll road policy in Zhejiang province, a number of new policies focusing on adjusting the toll policy of expressways within the province were successively issued in 2012. Despite that we expect the possibility of major changes in the policies of the expressway industry in the near term is minimal, we cannot be assured that there will be no change in the toll policy in Zhejiang province, nor further adjustment to the toll standards for vehicle classes and toll calculation methods adopted by expressway operators within the province. It is uncertain that changes in toll tariffs of expressways arising therefrom will not have any adverse effects on the toll revenue of the Group.

SECURITIES BUSINESS RISKS

Market Fluctuations

The securities business is highly susceptible to market fluctuations and may experience periods of high volatility accompanied by reduced liquidity. It may be materially affected by economic and other factors such as the global market conditions; the availability and cost of capital; the liquidity of the global markets; the level and volatility of stock prices, commodity prices and interest rates; currency values and other market indices; inflation; natural disasters; acts of war or terrorism; as well as investor sentiment and confidence in the financial markets. There is no assurance as to whether our securities business will be adversely affected by fluctuations in the market, or whether our securities business will continue to contribute to our overall profit margin.

Regulation of the Securities Business

We are subject to extensive regulations in the PRC that govern how we conduct our securities business, and we are subject to risks of intervention by the PRC regulatory authorities. We could be fined, prohibited from engaging in some of our business activities or subject to limitations or conditions on our business activities, among other things. Significant regulatory actions against us could have material adverse impacts on our financial position, cause us significant reputational harm, or harm our business prospects. New laws, regulations or changes in the enforcement of existing laws or regulations applicable to our clients may also adversely affect our business.

FINANCIAL RISKS

For financial risks and uncertainties of the Group, please see notes 4, 5 and 6 to the Consolidated Financial Statements.

STATEMENT OF RESPONSIBILITY FROM THE DIRECTORS WITH RESPECT TO THE ANNUAL REPORT AND THE COMPANY'S ACCOUNTS

The Directors of the Company duly confirm that to the best of their knowledge:

- the consolidated financial statements prepared and subject to disclosure under the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants give a true and fair view of the assets, liabilities, financial position and profit of the Group, and cover the enterprises that have been consolidated into the Company; and
- the “Management Discussion and Analysis” section included in this annual report includes a fair review of the development and performance of the business and the position of the Group, covers the enterprises that have been consolidated into the Company and describes the principal risks and uncertainties faced by the Group.

From the beginning of year 2012 up to now, there has been no occurrence of significant events that would have a material impact on the normal operation of the Group.

By Order of the Board

Tony ZHENG

Company Secretary

Hangzhou, Zhejiang Province, the PRC

March 19, 2013