

Principal Risks and Uncertainties

TOLL ROAD BUSINESS RISKS

Economic environment

Since complexities regarding the recovery of both the international and domestic economies still exist, coupled with the uncertainties regarding the recovery growth of Zhejiang Province's internal and external trades, as well as possible new difficulties encountered by the macro-economy amid the current inflationary pressure, it is anticipated that traffic growth along the Group's expressways remains uncertain in the future. The operations, financial position and operating results of the Group remain uncertain.

Competition

Although the Shenjia Huhang Expressway and the Zhuyong Expressway were successively opened in 2010, the future openings of nearby expressways such as the Jiaxing-Shaoxing Cross River Passage are expected to result in new traffic diversions for the Shangsang Expressway and certain sections of the Shanghai-Hangzhou-Ningbo Expressway. Therefore, we cannot be assured as to whether traffic volumes to be generated on the expressways under the Group will be at the same levels as before or will increase in the future, or whether the operating results of the Group will be affected.

Concession period extension

Since the expansion works of the Shanghai-Hangzhou-Ningbo Expressway has been completed, we plan to apply for the extension of the concession period for the construction, management and toll collection of the Shanghai-Hangzhou-Ningbo Expressway. We cannot be assured as to whether the Zhejiang Provincial Government will timely approve the application for extending the concession or whether material delays or serious difficulties will arise in the course of the application for extending the concession period, which may have an adverse impact on the operations, financial position and operating results of the Group.



Toll policy

Although Zhejiang Province has implemented the toll-by-weight policy for trucks in April 2010, local toll road policies in Hangzhou City are expected to change due to further inflation in prices of goods and an increase in petroleum product prices. It is also expected that toll standards for vehicle classes and toll calculation methods adopted by expressways in the province may be adjusted further. Changes in toll standards for expressways may arise and we cannot be assured as to whether this will adversely affect the toll income of the Group.

SECURITIES BUSINESS RISKS

Market Fluctuations

Our securities business is 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; and 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 Securities Business

We are subject to extensive regulations in the PRC in which we conduct our securities business and we are regulated 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 financial effects, cause us significant reputational harm, or harm our business prospects. New laws or 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, see notes 4, 5 and 6 to the Consolidated Financial Statements.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

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

- the consolidated financial statements prepared in accordance with 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 covers 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 that the Group faces.

From the beginning of Year 2010 up to now, there have been no significant events that would have material impact on the normal operation of the Group.

For and on behalf of the Board
ZHANG Jingzhong
Executive Director/Deputy General Manager

Hangzhou, Zhejiang Province, the PRC
March 13, 2011