HUAYU EXPRESSWAY GROUP LIMITED
華昱高速集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1823

Annual Report 2010

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CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Chan Yeung Nam *(Chairman)*
Mai Qing Quan *(Chief Executive Officer)*
Chen Kai Shu
Fu Jie Pin
Chen Min Yong
Zhang Bo Qing
Yue Feng
Mao Hui

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sun Xiao Nian
Chu Kin Wang, Peleus
Hu Lie Ge

BOARD COMMITTEES

AUDIT COMMITTEE

Chu Kin Wang, Peleus *(Chairman)*
Hu Lie Ge
Sun Xiao Nian

NOMINATION COMMITTEE

Sun Xiao Nian *(Chairman)*
Hu Lie Ge
Fu Jie Pin

REMUNERATION COMMITTEE

Hu Lie Ge *(Chairman)*
Chu Kin Wang, Peleus
Chen Kai Shu

COMPANY SECRETARY

Sin Ka Man *HKICPA, FCCA*

AUTHORISED REPRESENTATIVES

Chan Yeung Nam
Sin Ka Man

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1802, 18/F
West Tower
Shun Tak Centre
Sheung Wan
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman
KY1-1107
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

AUDITORS

KPMG
Certified Public Accountants

LEGAL ADVISERS AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

PRINCIPAL BANKERS

China Merchants Bank
China Construction Bank Corporation

COMPANY WEBSITE

www.huayu.com.hk

STOCK CODE

1823

FINANCIAL SUMMARY

For the year ended 31 December

RESULTS	**2010 HK$'000**	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
Turnover	**537,631**	205,538	10,080	5,573	1,874
Loss before taxation	**(11,321)**	(15,687)	(3,221)	(834)	(791)
Income tax (expenses)/benefit	**(314)**	740	831	168	271
Loss for the year	**(11,635)**	(14,947)	(2,390)	(666)	(520)
Attributable to:					
Equity shareholders of the Company	**(12,069)**	(14,385)	(2,140)	(588)	(465)
Non-controlling interests	**434**	(562)	(250)	(78)	(55)
	(11,635)	(14,947)	(2,390)	(666)	(520)

As at 31 December

ASSETS AND LIABILITIES	**2010 HK$'000**	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK&'000
Total assets	**1,253,597**	1,041,287	137,954	59,017	52,119
Total liabilities	**(557,377)**	(399,422)	(28,298)	(6,691)	(2,852)
	696,220	641,865	109,656	52,326	49,267
Attributable to:					
Equity shareholders of the Company	**628,348**	610,999	98,716	47,107	44,342
Non-controlling interests	**67,872**	30,866	10,940	5,219	4,925
	696,220	641,865	109,656	52,326	49,267

CHAIRMAN STATEMENT

On behalf of the board of directors (the "Board") of Huayu Expressway Group Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2010.

2010 was a good year for China and our Group. China was one of the countries with the largest economic growth in the world in 2010. With the continuing economic policies taken by the PRC Government to promote infrastructure development and boost domestic demand, China maintained its high GDP growth rate in the year 2010. As a result, with the rapid economic growth and significant increase in investment, national trade and domestic consumption in PRC, the overall traffic volume in the toll roads in PRC increased substantially during the year. We expect that the toll road industry will continue to preform well in the coming years.

During the year 2010, we mainly continued to focus on the construction of the Sui-Yue Expressway (Hunan Section). As at 31 December 2010, total investment in this project was about HK$1,007.3 million. The construction work was performed according to our plan and expected to be completed by the end of 2011. Toll collection will commence by the beginning of 2012. The Sui-Yue Expressway (Hunan Section) is a dual three-lane expressway with a planned length of approximately 24.08km and will be connecting the southern end of Jing-Yue Yangtze River Highway Bridge in Daorenji town to Kunshan in Yueyang City, and connecting to the existing Jing-Gang-Ao Expressway via Yueyang Connecting Line to reach Guangdong Province, Hong Kong and Macau. Once it is completed, our Group will operate the expressway pursuant to the Concession Agreement under which we have a concession period of 27 years from the date of completion.

Although we currently only have one expressway project in our Group, our prospects are not limited to that project. In accordance with our strategy, we will pursue other infrastructure projects in the PRC whenever suitable opportunity arises. Apart from developing new infrastructure projects, we might also consider acquiring abandoned or half-developed infrastructure projects, as well as infrastructure projects which are already in operation, from other developers or the government if and when it is commercially viable to do so.

On behalf of the Board, I would like to express my sincere gratitude to our management and all staff for their continuous efforts and whole-hearted devotion as well as our shareholders for their support and trust in us.

Chan Yeung Nam
Chairman

Hong Kong, 24 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

With the continuing economic policies taken by the PRC Government to promote infrastructure development and boost domestic demand, China maintained its high GDP growth rate in year 2010. The toll road industry can also be benefited from those economic growth.

FINANCIAL REVIEW

TURNOVER AND COST OF CONSTRUCTION SERVICES

The Group is mainly engaged in the construction, operation and management of the Sui-Yue Expressway (Hunan Section) in Hunan, the PRC. During the year, the expressway was under construction and has not commenced its operation. Turnover during the year represented revenue from construction work and project management services under the service concession arrangement and there was no real cash inflow realised / realisable during the construction period.

For the year ended 31 December 2010, the Group recorded a turnover of approximately HK$537.6 million, about 2.6 times of that for the year ended 31 December 2009 of approximately HK$205.5 million. The increase in the turnover was mainly due to the increased injection of investments and efforts in the construction of the expressway of the Group during the year. Total investment in the expressway project was about HK$1,007.3 million (2009: HK$414.8 million) as at 31 December 2010.

OTHER REVENUE AND NET LOSS

The Group recorded other revenue and net loss of approximately HK$1.9 million and HK$1.0 million (2009: HK$0.6 million and nil) respectively. Other revenue of the Group mainly consists of interest income from bank deposits. The increase in other revenue was mainly because of the increase in cash deposited in banks as a result of the receipts of the IPO proceeds and the injection of capital by major shareholder near the end of 2009. Other net loss was the exchange loss incurred during the year.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 16% from approximately HK$20.8 million for the year ended 31 December 2009 to approximately HK$24.2 million for the year ended 31 December 2010. Since the commencement of listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") near the end of 2009, the Group incurred more legal consultancy fee, audit fee and some other related expenses during the year.

LOSS FOR THE YEAR

As the Group made further progress in the Sui-Yue Expressway (Hunan Section) project, we recorded higher revenue from construction work and project management services under the service concession arrangement during the year. The Group still has not commenced the toll road operation during the year. Accordingly, our loss for the year ended 31 December 2010 decreased by 22% from approximately HK$14.9 million for the year ended 31 December 2009 to approximately HK$11.6 million for the year ended 31 December 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2010, the Group financed its operations and capital expenditures by the capital of the Company and long-term secured bank loan. As at 31 December 2010, total bank loan drawn by the Group was about HK$448.2 million (2009: HK$340.8 million) and the total cash and cash equivalents, including bank deposits and cash on hand was amounted to approximately HK$157.2 million (2009: HK$544.2 million).

The Group has always pursued a prudent treasury management policy and is in a strong liquidity position with sufficient standby banking facilities to cope with daily operation and the future development demands for capital. As at 31 December 2010, total available banking facilities of the Group amounted to RMB720 million from China Merchants Bank, which is mainly for the construction cost of the Sui-Yue Expressway (Hunan Section), among which the amount of outstanding long-term secured bank loan was HK$448.2 million (2009: HK$340.8 million) (equivalent to RMB380 million (2009: RMB300 million)). The ratio of outstanding long-term secured bank loan to equity holders' equity was 71.3% (2009: 55.8%).

At 31 December 2010, the long-term secured bank loan is repayable as follows:

	2010 HK$'000	2009 HK$'000
After 2 years but within 5 years	70,770	34,083
After 5 years	377,440	306,747
	448,210	340,830

During the year, the Group has not entered into any interest swap arrangement to hedge against interest rate risks.

USE OF NET PROCEEDS FROM THE INITIAL PLACING AND PUBLIC OFFERING

The shares of the Company were listed on the Main Board of the Stock Exchange on 23 December 2009 with net proceeds from the initial placing and public offer of approximately HK$115.54 million (after deducting issuing expenses). Up to 31 December 2010, all of the proceeds were used for the development costs of the Sui-Yue Expressway (Human Section) as described in the Prospectus.

FOREIGN CURRENCY RISK

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong Dollars.

As at 31 December 2010, the Group did not enter into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group. The management will continue to monitor its foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSET

As at 31 December 2010, the banking facilities of RMB1.1 billion from China Merchants Bank was secured by the pledge of the toll collection right in relation to the Sui-Yue Expressway (Hunan Section), upon commencement of the toll road operation.

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2010 not provided for in the financial statements were as follows:

	2010 HK$'000	2009 HK$'000
Contracted for	527,119	624,098
Authorised but not contracted for	566,909	890,423

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

BUSINESS REVIEW

SUI-YUE EXPRESSWAY (HUNAN SECTION)

The Sui-Yue Expressway (Hunan Section) is a dual three-lane expressway with a planned length of approximately 24.08km and will be connecting the southern end of the Jing-Yue Yangtze River Highway Bridge in Daorenji town to Kunshan in Yueyang City, and connecting to the existing Jing-Gang-Ao Expressway via Yueyang Connecting Line to reach Guangdong Province, Hong Kong and Macau. It is currently under construction and is planned to be completed by the end of 2011. The Group will then operate the Sui-Yue Expressway (Hunan Section) once it is completed and open to traffic pursuant to the Concession Agreement under which the Group will have a concession period of 27 years (excluding construction period).

The construction of the project was at a more advanced stage for the year ended 31 December 2010. As at 31 December 2010, total investment in the project was about HK$1,007.3 million (2009: HK$414.8 million).

EMPLOYEES AND EMOLUMENTS

As at 31 December 2010, the Group employed a total of 51 (2009: 46) employees in the PRC and Hong Kong which included the management staff, engineers, technicians, etc. For the year ended 31 December 2010, the Group's total expenses on the remuneration of employees was approximately HK$13.8 million (2009: HK$6.9 million).

The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company adopted a Share Option Scheme on 30 November 2009 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. No options have been granted under the Share Option Scheme up to 31 December 2010.

PROSPECTS

The Sui-Yue Expressway (Hunan Section) is one of the expressways with high economic potential in the PRC. It is strategically located in Hunan Province, which is one of the high economic growth provinces in the PRC. Also, the Sui-Yue Expressway (Hunan Section) will be an integral part of the major artery between Hunan Province and Hubei Province. Once it is completed and open to traffic, the enormous economic potential of the currently relatively limited trading between the Wuhan-Jingzhou area in Hubei Province and the Yueyang area in Hunan Province will be realised, resulting in significant vehicle turnover for the Sui-Yue Expressway (Hunan Section).

Furthermore, the Sui-Yue Expressway (Hunan Section) will connect to major expressway networks in the PRC and various feeder roads in Hunan Province. It will benefit from its connectivity to the existing and future highway and expressway networks because the usage of expressways depends on their accessibility relative to the points of origin and destination for their potential traffic.

In the shorter term, growth in traffic demand within Hunan Province will be driven by continuing economic growth in the PRC in general and by associated growth in vehicle ownership and usage. Under these premises, it is expected that traffic flow for the Sui-Yue Expressway (Hunan Section) will also show sustainable and continuous growth.

With the experience of the directors of the Company (the "Directors") in successfully completing other PRC toll-expressway projects, and the connections and reputation established by them within the PRC, the Group will continue to tap and pursue opportunities which are consistent with its overall business strategies, and which will generate a satisfactory return on investment.

In accordance with this strategy, the Group will pursue other infrastructure projects in the PRC whenever suitable opportunity arises. Apart from developing new infrastructure projects, we might also consider acquiring abandoned or half-developed infrastructure projects, as well as infrastructure projects which are already in operation, from other developers or the government if it is commercially viable to do so.

CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining good corporate governance practices and has therefore reviewed the corporate governance policies of the Company with the adoption and improvement of various procedures and documentations which are detailed in this report.

The Board has adopted the code provisions set out in the Code of Corporate Governance Practice (the "Code") contained in Appendix 14 to the Listing Rules. The Company has applied the principles and complied with the requirements of the Code during the year end review.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standards set out in the Model Code throughout the year.

BOARD OF DIRECTORS

The overall management of the Group's business is vested in the Board. Key responsibilities include formulation of the Group's overall strategies and policies, setting of performance targets, evaluation of business performance and oversight of management.

As at 31 December 2010, the Board comprises eight executive directors and three independent non-executive directors. Biographical details of the directors are set out in the section headed "Directors and Senior Management" of this annual report.

CORPORATE GOVERNANCE REPORT

Brief details of the attendance of the meeting of the Board of Directors and Board Committees held during the year under review were summarised as follows:

	Board Meeting *Note*	Audit Committee *Note*	Remuneration Committee *Note*	Nomination Committee *Note*
Executive Directors				
Chan Yeung Nam	4/4	N/A	N/A	N/A
Mai Qing Quan	4/4	N/A	N/A	N/A
Chen Kai Shu	4/4	N/A	1/1	N/A
Fu Jie Pin	4/4	N/A	N/A	1/1
Chen Min Yong	4/4	N/A	N/A	N/A
Zhang Bo Qing	4/4	N/A	N/A	N/A
Yue Feng	4/4	N/A	N/A	N/A
Mao Hui	4/4	N/A	N/A	N/A
Independent Non-executive Directors				
Sun Xiao Nian	4/4	2/2	N/A	1/1
Chu Kin Wang, Peleus	4/4	2/2	1/1	N/A
Hu Lie Ge	4/4	2/2	1/1	1/1

Note: Number of meetings attended/Number of meetings held

The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and expertise relevant to the business of the Group. The executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company. In determining the independence of the independent non-executive Directors, the Board follows the requirements set out in the Listing Rules. The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rules 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

THE ROLES OF CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The division of responsibilities between the Chairman of the Board and the Chief Executive Officer are clearly defined and have been approved by the Board. The Chairman of the Board, Mr. Chan Yeung Nam, leads the Board in the determination of the strategy of the Company and in the achievement of its objectives. He is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda but not involved in the day-to-day business of the Group.

The Chief Executive Officer, Mr. Mai Qing Quan, is directly in charge of the daily operations of the Group and are accountable to the Board for the financial and operational performance of the Group.

CORPORATE GOVERNANCE REPORT

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the Directors (including executive Directors and independent non-executive Directors) has entered into a service contract with the Company for an initial term of three years, subject to termination in accordance with the provisions of the service contracts or by either party serving the other not less than three months' prior written notice.

In accordance with the Company's Article of Association, each year, one third of the Directors for the time being will retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years at the general meeting.

BOARD COMMITTEES

As an integral part of good corporate governance practice, the Board established the following Board Committees to oversee particular aspects of the Group's affairs. Each of these committees comprises entirely of independent non-executive Directors who have been invited to serve as members. These committees are governed by the respective written terms of reference approved by the Board.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") was established with written terms of reference in compliance with Rules 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises of three members, all are independent non-executive Directors of the Company, namely, Mr. Chu Kin Wang, Peleus, Mr. Hu Lie Ge and Mr. Sun Xiao Nian. Mr. Chu Kin Wang, Peleus is the Chairman of the Audit Committee.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2010, including the accounting principals and practice adopted by the Group.

The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment, re-appointment and removal of the external auditors, to review the financial statements and significant financial reporting judgments in respect of financial reporting and to oversee the internal controls of our Company.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The remuneration committee of the Company ("Remuneration Committee") was established with written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules. The Remuneration Committee comprises of three members, namely Mr. Hu Lie Ge, Mr. Chu Kin Wan, Peleus and Mr. Chen Kai Shu. Mr. Hu Lie Ge is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee of the Company include making recommendation to the Board on the Company's remuneration policy and structure relating to all Directors and senior management, reviewing and approving performance based remuneration and ensuring none of our Directors is involved in deciding their own remuneration.

The emolument of the employees of the Group is determined on the basis of their merit, qualification and competence.

The emolument of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each of the executive Directors is entitled to a basic salary which is reviewed annually. In addition, each of them may receive a discretionary bonus as the Board may recommend, provided that the aggregate amount for all executive Directors shall not exceed 10% of the audited consolidated net profit in respect of that financial year. Such amount has to be approved by the Remuneration Committee.

NOMINATION COMMITTEE

The nomination committee of the Company ("Nomination Committee") was established with written terms of reference in compliance with the Code. The Nomination Committee comprises of three members, namely Mr. Sun Xiao Nian, Mr. Hu Lie Ge and Mr. Fu Jie Pin. Mr. Sun Xiao Nian is the chairman of the Nomination Committee.

The primary functions of the Nomination Committee include making recommendation to the Board on the selection of individuals nominated for directorship. The Company currently has certain criteria upon which the Directors are selected and recommended. Such criteria include professional knowledge, skills and industry experience, personal integrity, as well as an undertaking to allocate sufficient time to deal with the Company's affairs. Candidates of Directors nominated for election or re-election at general meetings are resolved by voting by poll by shareholders.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the Group. However, the above statement should be read in conjunction with, but distinguished from, the independent auditors' report in the section headed "Independent Auditor's Report" which acknowledges the reporting responsibilities of the Group's auditors.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

During the year ended 31 December 2010, the remuneration paid or payable to the Group's auditors, KPMG, in respect of the services provided are as follows:

	HK$'000
Audit and review services	1,600
Other services	1,800
Total	3,400

INTERNAL CONTROL

The Board acknowledges its responsibilities to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of shareholders. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Group.

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of maintaining clear, timely and effective communication with shareholders of the Company and its investors. The Board also recognises effective communication with investors is the key to establish investors' confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the shareholders of the Company receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all corporate correspondence on the Company's website www.huayu.com.hk. The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. The Directors and the members of the various board committees would attend and answer questions raised on the annual general meeting of the Company. Separate resolutions would be proposed at the general meeting on each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll would be declared at the meeting and published on the websites of the Stock Exchange and the Company simultaneously.

Shareholders may put forward their proposals or inquires to the Board by sending their written request to the Company's correspondence address in Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chan Yeung Nam (陳陽南), aged 55, is an executive director and the Chairman of the Company. Mr. Chan is the founder of the Group and was appointed as executive directors in April 2009. He is responsible for the overall management, development and planning of the Group. He is also responsible for assessing and analyzing investment opportunities involving other infrastructure projects when they arise. Mr. Chan graduated from Sun Yat-Sen University. He has more than 13 years of experience in the development, operation and management of highways.

Mr. Mai Qing Quan (麥慶泉), aged 61, is an executive director and the Chief Executive Officer of the Company. He joined the Group in May 2009. Mr. Mai is responsible for the negotiation and communication with the relevant governmental bodies in the PRC. He is also responsible for overseeing the infrastructure projects of the Group. Mr. Mai graduated from Hunan Normal College. He has over 6 years of experience in investment, construction and operation of expressway projects in the PRC.

Mr. Chen Kai Shu (陳開樹), aged 49, joined the Company as an executive director in May 2009. Mr. Chen was responsible for road greening, soil and water preservation and environmental protection in the expressway projects of the Group. He graduated from 北京林學院(Beijing Forestry College)*, currently part of Beijing Forestry University, specialising in forestry. He has over 17 years of experience in greening and environmental protection.

Mr. Fu Jie Pin (符捷頻), aged 43, joined the Company as an executive director in May 2009. Mr. Fu is responsible for project investment analysis, commercial negotiation and coordination and investment capital operation. Mr. Fu graduated from Sun Yat-Sen University with a bachelor's degree in electronics and information system in 1989. He has over 13 years of experience in development, operation and management of highways in the PRC.

Mr. Chen Min Yong (陳民勇), aged 41, joined the Company as an executive director in May 2009. Mr. Chen was responsible for project development and the establishment of the toll collection system for the highway projects of the Group. He will also be responsible for overseeing the operation of the toll collection management system of the toll roads of the Group when they commerce operation. He graduated from 重慶建築工程學院(Chongqing Institute of Architectural Engineering)*, currently part of the Chongqing University, with a bachelor's degree in engineering majoring in construction material and product. He then completed a graduate program at 長沙交通學院(Changsha Communications Institute)* majoring in transportation and management in 2001. Mr. Chen has over 12 years of experience in operation and management of highway projects.

Mr. Zhang Bo Qing (張博慶), aged 46, joined the Company as an executive director in May 2009. Mr. Zhang is responsible for on-site management and project coordination in the highway projects of the Group. He graduated from a graduate training scheme majoring in bridges and tunnel engineering from South West Jiaotong University in 1993. Mr. Zhang is a senior civil engineer accredited by (廣東省人事廳)(Guangdong Province Personnel Bureau)* and has over 10 years of experience in site management of road construction projects.

Mr. Yue Feng (岳峰), aged 67, joined the Company as an executive director in May 2009. Mr. Yue is responsible for liasing with the relevant bodies in relation to road design. He graduated from 遼寧交通學院(Liaoning College of Communications)* in vehicle techniques application and reparation. Mr. Yue is a senior engineer accredited by 深圳市交通工程技術人員高級專業技術資格評審委員會(Shenzhen Transport Engineering Personnel High Level Committee of Professional and Technical Qualification)*. He was once the vice secretary level inspector of Shenzhen Municipal Transportation Bureau responsible for consultation for traffic and road planning, the head of 深圳交通建設工程專家組(Shenzhen Transportation Construction Engineering Expert Group)* and the president of 深圳市公路協會(Shenzhen Road Association)*.

Ms. Mao Hui (毛惠), aged 34, joined the Company as an executive director and chief financial officer of the Group in May 2009. Ms. Mao is responsible for the finances, internal and external coordination and public relations of the Group. She graduated from 湖南財經學院(Hunan College of Economics and Finance)* with a degree in bachelor of economics in financial accounting. She then obtained a master degree in management and accounting from Hunan University. Ms. Mao has over 11 years of experience in financial management.

* *The English Translation is for reference only. The official name of the university, college, institution or organisation is in Chinese.*

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Xiao Nian (孫小年), aged 46, joined the Company as an independent non-executive director in May 2009. He obtained his master degree in automobiles and transport from 吉林工業大學(Jilin University of Technology)*, currently part of the Jilin University. He then further obtained his doctor degree in transportation planning and management from Tongji University. He is a senior engineer of professor's level accredited by the 廣東省人事廳(Guangdong Province Personnel Bureau)* in 2003 and a registered consultant engineer accredited by the Ministry of Personnel of the PRC. He is now the vice chief engineer and the head of technical consultation centre of the China Academy of Transportation Sciences.

Mr. Chu Kin Wang, Peleus (朱健宏) aged 46, joined the Company as an independent non-executive director in May 2009. He obtained his master degree in business administration from the University of Hong Kong. Mr. Chu is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountant, a fellow member of the Association Chartered Certified Accountants and an associate of Hong Kong Institute of Company Secretary and Administrators. Mr. Chu is a director of Chinese People Holdings Company Limited, Bright Prosperous Holdings Limited and Eyang Holdings (Group) Limited, all of which are companies listed on the Main Board of Hong Kong Stock Exchange.

Mr. Hu Lie Ge (胡列格) aged 57, joined the Company as an independent non-executive director in May 2009. He graduated from 長沙交通學院(Changsha Communications Institute)* in Mathematical Mechanics and completed a graduate course in Probability Theory and Mathematics Statistics at 長沙鐵道學院(Changsha Railway University)*, currently part of Central South University. Mr. Hu was once the Head of the 交通運輸學院(College of Transportation and Communications)* in Changsha University of Science and Technology and is now a member of 湖南省促進物流業發展專家委員會(Hunan Province Committee for Facilitation of the Development of the Logistics Industry)*.

SENIOR MANAGEMENT

Mr. Gan Xian Hui (甘先會) aged 41, joined the Group as a chief contract budget controller in 2008. Mr. Gan is responsible for controlling contract budget and organisation of invitations to tender. He graduated from 西安冶金建築學院(Xian Institute of Metallurgy and Construction)*, currently known as Xian University of Architecture and Technology, with a bachelor degree in engineering majoring in industrial and civil architecture. Mr. Gan has over 11 years of experience in the management of construction projects.

Mr. Chen Jing An (陳景安) aged 62, joined the Group as a chief engineer in 2008. Mr. Chen is responsible for road construction design and technical management. He is a senior engineer major in railway engineering. He has over 13 years of experience in the design and technical management of highways projects in the PRC.

Ms. Liu Dan Yi (劉丹宜) aged 50, joined the Group as a general manager of human resources and administration in 2007. She is responsible for the administration management, human resources management and back-office management of the Group. Ms. Liu obtained her master degree in engineering from Shanghai Jiao Tong University. She has over 22 years experience in administration and human resources.

** The English Translation is for reference only. The official name of the university, college, institution or organisation is in Chinese.*

REPORT OF THE DIRECTORS

The Board presents this annual report together with the audited consolidated financial statements for the year ended 31 December 2010.

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Huayu Expressway Group Limited (the "Company") is a Company incorporated and domiciled in Cayman Islands and has its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, Cayman Islands and its principal place of business in Hong Kong at Room 1802, 18/F West Tower, Shun Tak Centre, Sheung Wan, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 13 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

As the Sui-Yue Expressway (Hunan Section) project is under construction and the Group has not commenced the toll road operation, the Company and its subsidiaries (the "Group") have no customer information. No further disclosure with regard to the Group suppliers are made since there is normally no major purchase in relation to its ordinary course of business.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2010 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 24 to 70.

RESERVES

Details of movements in the reserve of the Company from the date of incorporation to 31 December 2010 are set out in note 19 to the consolidated financial statements.

Losses attributable to shareholders of HK$11,635,000 (2009: HK$14,947,000) have been transferred to reserves. Other movements in reserve are set out in consolidated statement of changes in equity.

No dividend were declared nor paid for the year ended 31 December 2010 (2009: HK$Nil).

CHARITABLE DONATIONS

No charitable donations were made by the Group during the year ended 31 December 2010 (2009: HK$Nil).

REPORT OF THE DIRECTORS

FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 11 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company from the date of incorporation to 31 December 2010 are set out in note 19 to the consolidated financial statements.

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries since the listing date until 31 December 2010.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS

The directors during the financial year and up to the date of this annual report were:

EXECUTIVE DIRECTORS

Mr. Chan Yeung Nam
Mr. Mai Qing Quan
Mr. Chen Kai Shu
Mr. Fu Jie Pin
Mr. Chen Min Yong
Mr. Zhang Bo Qing
Mr. Yue Feng
Ms. Mao Hui

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Xiao Nian
Mr. Chu Kin Wang, Peleus
Mr. Hu Lie Ge

In accordance with Article 83 of the Company's Articles of Association, any director appointed by the Board to fill a casual vacancy or as an additional director shall hold office only until the next following general meeting of the Company.

REPORT OF THE DIRECTORS

By virtue of Articles 84 and 85 of the Articles of Association of the Company, Mr. Chen Min Yong, Mr. Zhang Bo Qing, Mr. Yue Feng and Ms. Mao Hui will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Each of the executive and independent non-executive Directors on the Board has entered into a service contract with the Company for an initial term of three years commencing and thereafter may be terminated by either party upon a three-months' prior written notice.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the directors of the Company (the "Model Code") contained in the Rules of Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") were as follows:

Name of director	Nature of interest	Number of shares (ordinary shares)	Percentage
Mr. Chan Yeung Nam *(Note)*	Interest in controlled corporation	300,000,000	72.71%

Note: Mr. Chan Yeung Nam is deemed to be interested in 300,000,000 shares of the Company *held by Velocity International Limited by virtue of it being controlled by Mr. Chan Yeung Nam.*

Apart from the forgoing, as at 31 December 2010, none of the directors or chief executive of the Company or any of their spouses or children under eighteen years of age had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

At no time was the Company, or any of its holding companies or subsidiaries a party to any arrangements to enable any directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company adopted a Share Option Scheme on 30 November 2009 for the purpose of motivating eligible persons to optimise their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The details of the principal terms and conditions of the share option scheme were summarised in the section headed "Share Option Scheme" in Appendix VII to the Prospectus.

Since the option scheme became effective on 30 November 2009, no options have been granted by the Company under the Share Option Scheme.

Apart from the forgoing, at no time during the year was the Company, or any of its holding companies or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, so far as it is known to any director or chief executive of the Company, the persons (other than the directors and the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were directly or indirectly, interested in 10% of more of the nominal value of any shares of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Name of shareholders	Long position in ordinary shares held	Percentage of total issued shares
Velocity International Limited *(Note)*	300,000,000	72.71%

Note: The entire issued share capital of Velocity International Limited is owned by Mr. Chan Yeung Nam, an executive director and the chairman of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issue shares as required under the Listing Rules for the period from the listing date to 31 December 2010.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its holding companies or subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

BANK LOAN

Particulars of bank loan of the Group as at 31 December 2010 are set out in note 17 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of the annual report.

RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The employees of the subsidiaries in the People's Republic of China are members of the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of their payroll to these schemes to fund the benefits. The only obligation of the Group with respect to these schemes is the required contributions under the schemes.

The Group's total contributions to retirement schemes charged to the income statement during the year ended 31 December 2010 amounted to HK$532,000 (2009: HK$612,000).

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

REPORT OF THE DIRECTORS

CODE OF CORPORATE GOVERNANCE PRACTISES

The Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2010.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 Decemebr 2010.

AUDIT COMMITTEE

The Audit Committee has reviewed with management and the external auditor the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2010.

AUDITORS

KPMG will retire and being eligible, will offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting of the Company.

By order of the board

Chan Yeung Nam
Chairman
Hong Kong, 24 March 2011

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of Huayu Expressway Group Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Huayu Expressway Group Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 24 to 70, which comprise the consolidated and Company statements of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
24 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Turnover	4	**537,631**	205,538
Cost of construction services		**(525,803)**	(201,016)
Gross profit		**11,828**	4,522
Other revenue	5	**1,944**	586
Other net loss	5	**(955)**	–
Administrative expenses		**(24,158)**	(20,795)
Loss from operations		**(11,341)**	(15,687)
Subsidy income		**20**	–
Loss before taxation	6	**(11,321)**	(15,687)
Income tax (expenses)/benefit	7(a)	**(314)**	740
Loss for the year		**(11,635)**	(14,947)
Attributable to:			
Equity shareholders of the Company		**(12,069)**	(14,385)
Non-controlling interests		**434**	(562)
Loss for the year		**(11,635)**	(14,947)
Loss per share (HK Cents)			
Basic and Diluted	10	**(2.93)**	(4.76)

The notes on pages 31 to 70 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
Loss for the year	**(11,635)**	(14,947)
Other comprehensive income for the year		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong, net of nil tax	**15,324**	232
Total comprehensive income for the year	**3,689**	(14,715)
Attributable to:		
Equity shareholders of the Company	**1,718**	(14,177)
Non-controlling interests	**1,971**	(538)
Total comprehensive income for the year	**3,689**	(14,715)

The notes on pages 31 to 70 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	11	**1,845**	1,716
Intangible asset – service concession arrangement	12	**1,007,258**	414,793
Prepayments	14	**–**	77,846
Deferred tax assets	18	**1,967**	2,086
		1,011,070	496,441
Current assets			
Prepayments and other receivables	14	**85,301**	597
Cash and cash equivalents	15(a)	**157,226**	544,249
		242,527	544,846
Current liabilities			
Accruals and other payables	16	**108,743**	58,056
Amount due to a related company	22(c)	**424**	536
		109,167	58,592
Net current assets		**133,360**	486,254
Total assets less current liabilities		**1,144,430**	982,695
Non-current liabilities			
Long-term secured bank loan	17	**448,210**	340,830
NET ASSETS		**696,220**	641,865
CAPITAL AND RESERVES	19		
Share capital		**4,126**	4,000
Reserves		**624,222**	606,999
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**628,348**	610,999
Non-controlling interests		**67,872**	30,866
TOTAL EQUITY		**696,220**	641,865

Approved and authorised for issue by the board of directors on 24 March 2011.

Chan Yeung Nam
Director

Mai Qing Quan
Director

The notes on pages 31 to 70 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Interests in subsidiaries	13	**513,388**	513,388
Current assets			
Prepayments and other receivables	14	**150**	150
Amounts due from subsidiaries		**109,113**	–
Cash and cash equivalents	15(a)	**7,441**	120,560
		116,704	120,710
Current liabilities			
Amounts due to subsidiaries		**2,672**	8,559
Accruals and other payables	16	**1,500**	6,606
		4,172	15,165
Net current assets		**112,532**	105,545
TOTAL ASSETS		**625,920**	618,933
CAPITAL AND RESERVES	19		
Share capital		**4,126**	4,000
Reserves		**621,794**	614,933
TOTAL EQUITY		**625,920**	618,933

Approved and authorised for issue by the board of directors on 24 March 2011.

Chan Yeung Nam
Director

Mai Qing Quan
Director

The notes on pages 31 to 70 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

		Attributable to equity shareholders of the Company							
	Note	Share capital HK$'000 (Note 19(c))	Share premium HK$'000 (Note 19(d)(i))	Other reserve HK$'000 (Note 19(d)(ii))	Exchange reserve HK$'000 (Note 19(d)(iii))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2010		**4,000**	**114,539**	**502,784**	**7,264**	**(17,588)**	**610,999**	**30,866**	**641,865**
Changes in equity for 2010:									
Loss for the year		–	–	–	–	(12,069)	(12,069)	434	(11,635)
Other comprehensive income – Exchange differences		–	–	–	13,787	–	13,787	1,537	15,324
Total comprehensive income for the year		–	–	–	13,787	(12,069)	1,718	1,971	3,689
Capital injection by non-controlling interests to a subsidiary		–	–	–	–	–	–	35,035	35,035
Shares issued under placing, net of issuance costs		126	15,505	–	–	–	15,631	–	15,631
Balance at 31 December 2010		**4,126**	**130,044**	**502,784**	**21,051**	**(29,657)**	**628,348**	**67,872**	**696,220**

The notes on pages 31 to 70 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

		Attributable to equity shareholders of the Company							
	Note	Share capital HK$'000 (Note 19(c))	Share premium HK$'000 (Note 19(d)(i))	Other reserve HK$'000 (Note 19(d)(ii))	Exchange reserve HK$'000 (Note 19(d)(iii))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2009		–	–	94,863	7,056	(3,203)	98,716	10,940	109,656
Changes in equity for 2009:									
Loss for the year		–	–	–	–	(14,385)	(14,385)	(562)	(14,947)
Other comprehensive income									
– Exchange differences		–	–	–	208	–	208	24	232
Total comprehensive income for the year		–	–	–	208	(14,385)	(14,177)	(538)	(14,715)
Capital contribution to a subsidiary		–	–	184,178	–	–	184,178	20,464	204,642
Arising on reorganisation		3,000	–	223,743	–	–	226,743	–	226,743
Shares issued under placing and public offering, net of issuance costs		1,000	114,539	–	–	–	115,539	–	115,539
Balance at 31 December 2009		4,000	114,539	502,784	7,264	(17,588)	610,999	30,866	641,865

The notes on pages 31 to 70 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Net cash used in operating activities	15(b)	**(25,477)**	(8,711)
Investing activities			
Payment for the purchase of property, plant and equipment		**(492)**	(149)
Payment for intangible assets		**(505,954)**	(301,218)
Increase in prepayments		**–**	(48,844)
Interest received		**1,926**	526
Net cash used in investing activities		**(504,520)**	(349,685)
Financing activities			
Settlement of amount due from a related party		**–**	10,999
Proceeds from long-term secured bank loan		**91,672**	340,830
Arising from reorganisation		**–**	226,743
Capital contribution by the controlling shareholder of the Company		**–**	184,178
Capital contribution by non-controlling interests		**35,035**	20,464
Proceed from issue of share capital, net of issuing expenses		**15,631**	115,539
Net cash generated from financing activities		**142,338**	898,753
Net increase/(decrease) in cash and cash equivalents		**(387,659)**	540,357
Cash and cash equivalents at beginning of the year		**544,249**	3,886
Effect of foreign exchange rate changes		**636**	6
Cash and cash equivalents at end of the year	15	**157,226**	544,249

The notes on pages 31 to 70 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION

Huayu Expressway Group Limited ("the Company") was incorporated in the Cayman Islands on 21 April 2009 as an exempted Company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands. The Company and its subsidiaries (together "the Group") are principally engaged in the construction, operation and management of an expressway in the People's Republic of China ("PRC").

Pursuant to a reorganisation ("the Reorganisation"), the Company acquired the equity interests of entities under common control and became the holding company of the subsidiaries now comprising the Group for the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited ("the Stock Exchange"). Details of the Reorganisation are set out in the prospectus of the Company dated 11 December 2009.

The shares of the Company were listed on the Stock Exchange on 23 December 2009.

The Group is regarded as a continuing entity resulting from the Reorganisation under common control and has been accounted for on the basis of merger accounting. The consolidated financial statements of the Group have been prepared as if the current group structure had been in existence throughout both years presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

2 SIGNIFICANT ACCOUNTING POLICIES

(A) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(B) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 24.

(C) SUBSIDIARIES AND NON-CONTROLLING INTERESTS

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(C) SUBSIDIARIES AND NON-CONTROLLING INTERESTS (continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(i) or (j) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(g)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(D) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(g)).

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(E) INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

The 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. The Group carries out the construction of an expressway for the granting authorities 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.

The 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 (see note 2(g)).

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 the cost of intangible assets arising from a service concession arrangement on a unit of usage 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 different period of expected future economic benefits flowing to the Group than the concession period, it is amortised separately.

Both the period and method of amortisation are reviewed annually.

(F) OPERATING LEASE CHARGES

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(G) IMPAIRMENT OF ASSETS

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period 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 the 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.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period 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;
– investment in subsidiaries; and
– intangible assets – service concession arrangement.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

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).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(G) IMPAIRMENT OF ASSETS (continued)

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

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.

– Reversals of impairment losses

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.

(H) RECEIVABLES

Receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(g)), 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 (see note 2(g)).

(I) 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.

(J) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(K) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(L) EMPLOYEE BENEFITS

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(M) INCOME TAX

Income tax for the year 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 year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(M) INCOME TAX (continued)

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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each end of reporting period 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.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(N) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(O) 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 the 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 end of the reporting period as a percentage of total estimated costs for each contract.

(ii) Interest income

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(P) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated into the functional currency of the entity at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

The results of the foreign operation are translated into the presentation currency of the Group at the exchange rates approximating the foreign exchange rates ruling at the dates of the transaction. Statement of financial position items are translated into the presentation currency of the Group at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(Q) 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.

(R) RELATED PARTIES

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(R) RELATED PARTIES (continued)

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(S) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocation resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group operates in a single business segment, the construction, operation and management of an expressway, in the PRC. Accordingly, no segmental analysis is presented.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 3 (revised 2008), Business combinations
- Amendments to HKAS 27, Consolidated and separate financial statements
- Improvements to HKFRSs (2009)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3 and HKAS 27 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as "minority interests") in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

4 TURNOVER

The principal activities of the Group are construction, operation and management of an expressway in the PRC. During the year, the expressway was under construction and has not commenced its operation. Turnover during the year represented revenue from construction work and project management services under the service concession arrangement.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 OTHER REVENUE AND NET LOSS

	2010 $'000	2009 $'000
Other revenue		
Interest income from bank deposits	**1,926**	526
Other	**18**	60
	1,944	586
Other net loss		
Exchange loss	**955**	–

6 LOSS BEFORE TAXATION

LOSS BEFORE TAXATION IS ARRIVED AT AFTER CHARGING:

		2010 $'000	2009 $'000
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	**3,607**	1,205
	Interest on bank loans repayable beyond five years	**16,344**	8,479
	Total interest expense on bank loans	**19,951**	9,684
	Less: interest expense capitalised into intangible assets*	**(19,951)**	(9,684)
		–	–

* The borrowing costs have been capitalised at a rate of 5.346-5.760% per annum (2009: 5.346%).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

6 LOSS BEFORE TAXATION (continued)

LOSS BEFORE TAXATION IS ARRIVED AT AFTER CHARGING: (continued)

		2010 $'000	2009 $'000
(b)	Staff costs:		
	Salaries, wages and other benefits	**13,271**	6,279
	Contributions to defined contribution retirement plans	**532**	612
		13,803	6,891

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiary participates in a defined contribution retirement benefit scheme ("the Scheme") organised by the local authority whereby the PRC subsidiary is required to make contributions to the Scheme at a fixed rate announced annually by the municipal government. The municipal government is responsible for the entire pension obligations payable to the retired employees.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with the schemes referred to above beyond the annual contributions described above.

		2010 $'000	2009 $'000
(c)	Other items:		
	Auditors' remuneration		
	– Audit and review services	**1,600**	1,117
	– Other services	**1,800**	–
	Consultancy fee	**–**	57
	Depreciation	**429**	403
	Operating lease charges in respect of rental of office premises	**1,029**	861

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(A) TAXATION IN THE CONSOLIDATED INCOME STATEMENT REPRESENTS:

	2010 $'000	2009 $'000
Deferred tax		
Origination and reversal of temporary differences (note 18)	**314**	(740)

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2010 and 2009.

(iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiary in the PRC is liable to PRC corporate income tax at a rate of 25% (2009: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the subsidiary sustained a loss for taxation purpose.

(B) RECONCILIATION BETWEEN TAX EXPENSES/(BENEFIT) AND ACCOUNTING LOSS AT APPLICABLE TAX RATES:

	2010 $'000	2009 $'000
Loss before taxation	**(11,321)**	(15,687)
Notional tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(272)**	(1,190)
Tax effect on tax losses not recognised	**600**	451
Tax effect on non-taxable income	**(14)**	(1)
Income tax expenses/(benefit)	**314**	(740)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

YEAR ENDED 31 DECEMBER 2010

	Fees $'000	Basic salaries, allowances and other benefits in kind $'000	Contributions to retirement benefit scheme $'000	Discretionary bonuses $'000	Total $'000
Executive directors					
Mr Chan Yeung Nam	1,104	491	30	45	1,670
Mr Mai Qing Quan	828	414	–	38	1,280
Mr Chen Kai Shu	552	407	–	38	997
Mr Fu Jie Pin	552	346	53	34	985
Mr Chen Min Yong	414	147	52	15	628
Mr Zhang Bo Qing	414	133	21	13	581
Mr Yue Feng	414	–	–	–	414
Ms Mao Hui	414	123	34	14	585
Independent non-executive directors					
Mr Sun Xiao Nian	57	–	–	–	57
Mr Chu Kin Wang, Peleus	138	–	–	–	138
Mr Hu Lie Ge	57	–	–	–	57
Total	4,944	2,061	190	197	7,392

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

8 DIRECTORS' REMUNERATION (continued)

YEAR ENDED 31 DECEMBER 2009

	Fees $'000	Basic salaries, allowances and other benefits in kind $'000	Contributions to retirement benefit scheme $'000	Discretionary bonuses $'000	Total $'000
Executive directors					
Mr Chan Yeung Nam	91	468	29	54	642
Mr Mai Qing Quan	68	397	–	45	510
Mr Chen Kai Shu	79	390	–	44	513
Mr Fu Jie Pin	45	316	52	36	449
Mr Chen Min Yong	34	141	46	16	237
Mr Zhang Bo Qing	34	131	21	14	200
Mr Yue Feng	34	–	–	–	34
Ms Mao Hui	34	115	34	12	195
Independent non-executive directors					
Mr Sun Xiao Nian	5	–	–	–	5
Mr Chu Kin Wang, Peleus	11	–	–	–	11
Mr Hu Lie Ge	5	–	–	–	5
Total	440	1,958	182	221	2,801

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2009: three) were directors of the Company for the year ended 31 December 2010 whose remuneration is disclosed in note 8 above.

The aggregate of the emolument in respect of the remaining one (2009: two) individual is as follows:

	2010 **$'000**	2009 $'000
Salaries and other emoluments	**948**	1,481
Contributions to retirement benefit scheme	**12**	16
Discretionary bonuses	**80**	140
	1,040	1,637

The emolument of the one (2009: two) individual with the highest emolument is within the following bands:

	Number of individuals	
	2010	2009
$Nil to $1,500,000	**1**	2

10 LOSS PER SHARE

(A) LOSS PER SHARE

	2010 **'000**	2009 '000
Issued ordinary shares at 1 January	**400,000**	–
Issuance of shares upon Reorganisation (note 19(c)(ii))	**–**	300,000
Issuance of shares for placing and public offering	**11,986**	2,466
Weighted average number of ordinary shares at 31 December	**411,986**	302,466

The calculation of loss per share is based on the consolidated loss attributable to ordinary equity shareholders of the Company of $12,069,000 (2009: $14,385,000) and the weighted average number of 411,986,000 (2009: 302,466,000) shares in issue during the year.

(B) DILUTED LOSS PER SHARE

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT

	The Group		
	Motor vehicles	**Furniture and fixtures**	**Total**
	$'000	$'000	$'000
Cost:			
At 1 January 2009	1,904	253	2,157
Additions	122	27	149
Exchange adjustments	3	–	3
At 31 December 2009	2,029	280	2,309
At 1 January 2010	**2,029**	**280**	**2,309**
Additions	**423**	**69**	**492**
Exchange adjustments	**89**	**11**	**100**
At 31 December 2010	**2,541**	**360**	**2,901**
Accumulated depreciation:			
At 1 January 2009	144	45	189
Charge for the year	355	48	403
Exchange adjustments	1	–	1
At 31 December 2009	500	93	593
At 1 January 2010	**500**	**93**	**593**
Charge for the year	**373**	**56**	**429**
Exchange adjustments	**29**	**5**	**34**
At 31 December 2010	**902**	**154**	**1,056**
Net book value:			
At 31 December 2010	**1,639**	**206**	**1,845**
At 31 December 2009	1,529	187	1,716

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

	The Group	
	2010	2009
	$'000	$'000
Cost:		
At 1 January	**414,793**	90,373
Additions	**562,331**	323,739
Exchange adjustments	**30,134**	681
At 31 December	**1,007,258**	414,793

The service concession arrangement represents the Group's rights to operate the Sui-Yue Expressway (Hunan Section) and receive toll fees therefrom.

During the year, the Group recorded revenue of approximately $537,631,000 (2009: $205,538,000), representing the fair value of the construction work (excluded land collection costs) and project management services provided, with the same amounts recognised as intangible assets-service concession arrangement.

In accordance with the accounting policy set out in note 2(e), the Group recognised land collection costs of $24,700,000 (2009: $118,201,000) during the year as intangible assets – service concession arrangement.

In accordance with the accounting policy set out in note 2(e), no amortisation is recognised in profit or loss as Sui-Yue Expressway (Hunan Section) is not available for use during the years ended 31 December 2009 and 2010.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

13 INTERESTS IN SUBSIDIARIES

	The Company	
	2010	2009
	$'000	$'000
Unlisted equities, at cost	**513,388**	513,388

Details of the subsidiaries at 31 December 2010 are as follows. The class of shares held is ordinary unless otherwise stated.

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid/ registered capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Top Talent Holdings Limited ("Top Talent")	British Virgin Islands ("BVI") 18 March 2003	US$1/ US$50,000	100%	–	Investment holding
Good Sign Limited ("Good Sign")	Hong Kong 19 December 2008	HK$1/ HK$10,000	–	100%	Investment holding
Bright Regent Limited ("Bright Regent")	Hong Kong 10 October 2003	HK$1/ HK$1	–	100%	Provision of administration services to the Group
湖南道岳高速公路實業有限公司 Hunan Daoyue Expressway Industry Co., Ltd. ("Daoyue") *	The PRC 22 December 2006	RMB580,440,000/ RMB600,950,000	–	90%	Construction, operation and management of an expressway in the PRC

* This entity is a foreign investment enterprise established in the PRC. The English translation of the Company name is for reference only. The official name of the entity is in Chinese.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

14 PREPAYMENTS AND OTHER RECEIVABLES

The Group had made prepayments to independent sub-contractors for the construction of Sui-Yue Expressway (Hunan Section).

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Non-current assets				
Prepayment	**–**	77,846	**–**	–
Current assets				
Prepayments	**84,682**	–	**–**	–
Other receivables	**619**	597	**150**	150
	85,301	597	**150**	150

15 CASH AND CASH EQUIVALENTS

(A) CASH AND CASH EQUIVALENTS COMPRISE:

	The Group		The Company	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Deposits with bank	**10,346**	205,001	**–**	–
Cash at bank and in hand	**146,880**	339,248	**7,441**	120,560
Cash and cash equivalents in the statement of financial position and consolidated cash flow statement	**157,226**	544,249	**7,441**	120,560

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

15 CASH AND CASH EQUIVALENTS (continued)

(B) RECONCILIATION OF LOSS BEFORE TAXATION TO CASH USED IN OPERATING ACTIVITIES:

	2010 $'000	2009 $'000
Loss before taxation	**(11,321)**	(15,687)
Adjustments for:		
– Depreciation	**429**	403
– Interest income	**(1,926)**	(526)
– Foreign exchange (gain)	**–**	(464)
– Profit from construction work and project management services under service concession arrangement	**(11,828)**	(4,522)
Changes in working capital:		
(Increase) in prepayments and other receivables	**(12)**	(212)
(Decrease)/increase in accruals and other payables	**(707)**	12,110
(Decrease)/increase in amount due to a related company	**(112)**	536
(Decrease) in amount due to controlling shareholder of the Company	**–**	(349)
Net cash used in operating activities	**(25,477)**	(8,711)

16 ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Construction payables	**99,170**	47,100	**–**	–
Accruals	**9,573**	10,956	**1,500**	6,606
	108,743	58,056	**1,500**	6,606

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17 LONG-TERM SECURED BANK LOAN

At 31 December, the long-term secured bank loan is repayable as follows:

	The Group	
	2010	2009
	$'000	$'000
After 2 years but within 5 years	**70,770**	34,083
After 5 years	**377,440**	306,747
	448,210	340,830

The amounts of banking facilities available and the utilisation at 31 December are set out as follows:

	The Group	
	2010	2009
	$'000	$'000
Facility amount available	**849,240**	908,880
Amounts utilised	**448,210**	340,830
Facility amount	**1,297,450**	1,249,710

The Group's rights to operate the Sui-Yue Expressway (Hunan Section) and receive toll fees therefrom, have been pledged to secure the bank loan.

The bank loan of the Group is subject to certain financial covenants. According to the agreement, the Group's PRC subsidiary, Daoyue, is required to invest not less than 35% of the total investment in Sui-Yue Expressway (Hunan Section) and maintain cash on hand at 130% of the 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. If Daoyue were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 20(b).

In accordance with the accounting policy set out in note 2(q), the borrowing costs for the year ended 31 December 2010 of $19,951,000 (2009: $9,684,000) have been capitalised into intangible asset-service concession arrangement, at a variable rate of 5.346-5.760% (2009: 5.346%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(A) DEFERRED TAX ASSETS RECOGNISED:

	Temporary differences on intangible assets-service concession arrangement $'000
Deferred tax arising from:	
At 1 January 2009	1,341
Credited to profit or loss (note 7(a))	740
Exchange adjustment	5
At 31 December 2009	2,086
At 1 January 2010	2,086
Credited to profit or loss (note 7(a))	(314)
Exchange adjustment	195
At 31 December 2010	1,967

(B) DEFERRED TAX ASSETS NOT RECOGNISED:

In accordance with the accounting policy set out in note 2(m), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $6,499,000 (2009: $2,863,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS

(A) MOVEMENTS IN COMPONENTS OF EQUITY

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital $'000	Share premium $'000	Other reserves $'000	Accumulated loss $'000	Total $'000
At date of incorporation	–	–	–	–	–
Arising from Reorganisation (note 19(c)(ii))	3,000	–	510,388	–	513,388
Shares issued under placing and public offering, net of issuance costs (note 19(c)(iii))	1,000	114,539	–	–	115,539
Total comprehensive income for the year	–	–	–	(9,994)	(9,994)
Balance at 31 December 2009 and 1 January 2010	4,000	114,539	510,388	(9,994)	618,933
Shares issued under placing, net of issuance cost (note 19(c)(iv))	126	15,505	–	–	15,631
Total comprehensive income for the year	–	–	–	(8,644)	(8,644)
Balance at 31 December 2010	4,126	130,044	510,388	(18,638)	625,920

(B) DIVIDENDS

No dividends has been declared or paid by the Company since its incorporation.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(C) SHARE CAPITAL

	2010		2009	
	Number of shares	**Amount $'000**	Number of shares	Amount $'000
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000,000**	**100,000**	10,000,000,000	100,000
Ordinary shares, issued and fully paid:				
At 1 January	**400,000,000**	**4,000**	–	–
Shares issued upon incorporation (note (i))	**–**	**–**	1	–
Issuance of new shares on Reorganisation (note (ii))	**–**	**–**	299,999,999	3,000
Issuance of shares for placing and public offering (note (iii))	**–**	**–**	100,000,000	1,000
Share placing and subscription (note (iv))	**12,608,000**	**126**	–	–
At 31 December	**412,608,000**	**4,126**	400,000,000	4,000

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Notes:

(i) The Company was incorporated on 21 April 2009 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On the same date, the Company issued 1 share at par value of $0.01.

(ii) On 30 November 2009, the Company entered into a share transfer agreement with Velocity International Limited ("Velocity") pursuant to which Velocity (entity under control of the controlling share holder of the Company) agreed to transfer the entire issued capital of Top Talent (entity under control of the controlling shareholder of the Company) to the Company in consideration of the Company issuing 299,999,999 shares to Velocity. Upon completion of the said share swap agreement, the Company held 100% of the issued share capital in Top Talent and Top Talent became the subsidiary of the Company.

(iii) On 23 December 2009, 100,000,000 ordinary shares were issued and offered for subscription at an issue price of $1.28 per share upon the listing of the Company's shares on the Stock Exchange. Net proceeds of $115,539,000 (after offsetting listing expenses of $12,461,000), out of which $1,000,000 and $114,539,000 were credited to the share capital and share premium account respectively.

(iv) On 19 January 2010, 12,608,000 ordinary shares were issued and offered for subscription under the over-allotment option at an issue price of HK$1.28 per share. Net proceeds of $15,631,000 (after offsetting issuance expenses of HK$507,000), out of which $126,000 and $15,505,000 were credited to the share capital and share premium account respectively.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(D) NATURE AND PURPOSE OF RESERVES

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company. Under the Companies Law of Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Other reserve

On 30 November 2009, the Company issued 299,999,999 ordinary shares of $0.01 each to the shareholder of Top Talent to acquire the 100% equity interest in Top Talent. Pursuant to this reorganisation, the Company became the holding Company of all the companies now comprising the Group. On 7 December 2009, the ultimate controlling shareholder of the Group assigned to the Company the receivable balances due from the Group companies amounted to $513,388,000. The difference between the assigned receivable balances over the nominal value of $3,000,000 of the shares issued by the Company in exchange thereof was recorded in “Other reserve”.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the PRC operation. The reserve is dealt with in accordance with the accounting policy as set out in note 2(p).

(iv) Distributable reserve

At 31 December 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $111,406,000 (2009: $104,545,000). The long-term secured bank loan of the Group is subject to certain covenants and the Group’s PRC subsidiary, Daoyue, is required to obtain prior approval from the bank, before declaring any cash dividend or bonus during the repayment years from 2013 to 2027.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(E) CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to financing at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a debt-to-equity ratio. For this purpose, debt is defined as total debt (which includes accruals and other payables, amounts due to a related company). Equity comprises all components of equity.

The debt-to-equity ratio of the Group at 31 December 2010 and 2009 is as follows:

	Note	**2010** **$'000**	2009 $'000
Current liabilities:			
Accruals and other payables	16	**108,743**	58,056
Amount due to a related company	22	**424**	536
		109,167	58,592
Non-current liabilities:			
Long-term secured bank loan	17	**448,210**	340,830
Total debts		**557,377**	399,422
Total equity		**696,220**	641,865
Debt-to-equity ratio		**80%**	62%

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and business risks arises in the normal course of the Group's business. The Group's exposure to these risks and financial risk management policies and practices used by the Group to manage these risks are described below.

(A) CREDIT RISK

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's prepayments and other receivables and deposits with banks.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each sub-contractor for expressway construction. Individual credit evaluations are performed on all sub-contractors. These evaluations focus on the sub-contractor's past history of construction work performance and current ability to fulfil the contract, and take into account information specific to the sub-contractor as well as pertaining to the economic environment in which the sub-contractor operates. The Group does not collect collateral in respect of the prepayments and other receivables. At 31 December 2010, contract guarantee deposits of $12,776,000 and contract retention deposits of $46,864,000 recognised in accruals and other payables (2009: $30,021,000 and $17,079,000), respectively were received from independent sub-contractors. The Group also regularly monitors the construction progress.

(B) LIQUIDITY RISK

Individual operating entities within the 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 subject to approval by the Company's management when the borrowings exceed certain predetermined levels of authority. The 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.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(B) LIQUIDITY RISK (continued)

The Group

	Contractual undiscounted cash outflow					
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	**Total**	**Carrying amount**
	$'000	$'000	$'000	$'000	$'000	$'000
2010						
Accruals and other payables	**49,103**	**–**	**59,640**	**–**	**108,743**	**108,743**
Amount due to non-controlling shareholder	**424**	**–**	**–**	**–**	**424**	**424**
Long-term secured bank loan	**–**	**–**	**86,007**	**550,628**	**636,635**	**448,210**
	49,527	**–**	**145,647**	**550,628**	**745,802**	**557,377**

	Contractual undiscounted cash outflow					
	More than Within 1 year or on demand	**More than 1 year but less than 2 years**	**2 years but less than 5 years**	**More than 5 years**	**Total**	**Carrying amount**
	$'000	$'000	$'000	$'000	$'000	$'000
2009						
Accruals and other payables	10,956	–	47,100	–	58,056	58,056
Amount due to non-controlling shareholder	536	–	–	–	536	536
Long-term secured bank loan	–	–	42,708	447,339	490,047	340,830
	11,492	–	89,808	447,339	548,639	399,422

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(B) LIQUIDITY RISK (continued)

The Company

	2010					
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount $'000
Accruals and other payables	**1,500**	**–**	**–**	**–**	**1,500**	**1,500**

	2009					
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount $'000
Accruals and other payables	6,606	–	–	–	6,606	6,606

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(C) INTEREST RATE RISK

(i) Interest rate profile

The Group's interest rates risk arises primarily from cash at bank and long-term borrowings issued at variable rates that expose the Group to cash flow interest rate risk. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements. The Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group does not use derivative financial instruments to hedge its debt obligations. The following table details the interest rate profile of the Group and the Company at the end of the reporting period:

	The Group			
	2010		2009	
	Effective interest rate %	**Amount $'000**	Effective interest rate %	Amount $'000
Variable rate instruments:				
Cash at bank	**0.550**	**157,224**	0.190	544,134
Long-term secured bank loan	**5.760**	**(448,210)**	5.346	(340,830)
		(290,986)		203,304

	The Company			
	2010		2009	
	Effective interest rate %	**Amount $'000**	Effective interest rate %	Amount $'000
Variable rate instruments:				
Cash at bank	**2.7729**	**7,441**	0.0007	120,560

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(C) INTEREST RATE RISK (continued)

(ii) Sensitivity analysis

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss for the year and accumulated losses by approximately $1,572,240 (2009: $5,441,340).

Since all the borrowing costs currently incurred by the Group are capitalised as part of the cost of construction of the Sui-Yue Expressway, any fluctuation in interest rates would have had no effect on the Group's loss or accumulated loss.

The sensitivity above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2009.

(D) BUSINESS RISK

The tariffs for toll fees are regulated by the relevant provincial price bureau. The Group's future revenue will be subject to tariffs determined by the PRC government. Adjustments of such tariffs will have a significant impact on the Group's future revenue and operating results.

(E) FOREIGN CURRENCY RISK

Individual companies within the Group have 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 the Group's financial position and be reflected in the exchange reserve.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(F) FAIR VALUES

The carrying amount of bank loan approximate their fair value based on the borrowing rates currently available for loans with similar terms and average maturities.

The amounts due to related companies as at 31 December 2009 and 2010 have no fixed terms of repayment. Given these terms, it is not meaningful to disclose their fair values.

All other financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2009 and 2010.

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. The respective fair value is estimated by reference to the costs of providing the service under the concession agreement plus an estimated profit margin.

21 COMMITMENTS

(A) OPERATING LEASE COMMITMENTS

At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		**The Company**	
	2010 **$'000**	2009 $'000	**2010** **$'000**	2009 $'000
Within 1 year	**936**	800	**745**	676
After 1 year but within 5 years	**476**	145	**476**	145
	1,412	945	**1,221**	821

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years with an option to renew the leases upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

21 COMMITMENTS (continued)

(B) CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December not provided for in the financial statements were as follows:

	The Group	
	2010	2009
	$'000	$'000
Contracted for	**527,119**	624,098
Authorised but not contracted for	**566,909**	890,423

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

22 MATERIAL RELATED PARTY TRANSACTIONS

(A) DURING THE YEAR ENDED 31 DECEMBER 2010, THE DIRECTORS ARE OF THE VIEW THAT THE FOLLOWING COMPANIES ARE RELATED PARTIES OF THE GROUP:

Name of party	Relationship
Mr. Chan Yeung Nam	Controlling shareholder of the Company
Shenzhen Huayu Investment & Development (Group) Co., Ltd.	Under the control of the controlling shareholder of the Company

(B) PARTICULARS OF SIGNIFICANT TRANSACTIONS BETWEEN THE GROUP AND THE ABOVE RELATED PARTIES DURING THE YEAR ARE AS FOLLOWS:

	2010	2009
	$'000	$'000
Non recurring transactions		
Short term advances to related company:		
– Shenzhen Huayu Investment & Development (Group) Co., Ltd.	–	67,708
Expense paid by a related company on behalf of the Group	**571**	536
Assigned receivable balances to the Company by the controlling shareholder of the Company	–	513,388

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

22 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(C) BALANCES WITH RELATED PARTIES

As at the end of the reporting period, the Group had the following balances with related parties:

	2010 **$'000**	2009 $'000
Amount due to a related company		
– Shenzhen Huayu Investment & Development (Group) Co., Ltd.	**(424)**	(536)

Balances with related parties represented short term advances made from related parties of the Group. These short term advances are unsecured and interest free.

(D) KEY MANAGEMENT PERSONNEL REMUNERATION

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2010 **$'000**	2009 $'000
Short-term employee benefits	**7,392**	2,801

Total remuneration is included in "staff costs" (see note 6(b)).

23 IMMEDIATE AND ULTIMATE CONTROLLING COMPANY

At 31 December 2010, the directors consider the immediate parent and ultimate controlling company of the Group to be Velocity International Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

NOTES TO THE FINANCIAL STATEMENTS

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24 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

KEY SOURCES OF ESTIMATION UNCERTAINTY

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.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) 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. The 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.

(b) Depreciation and amortisation

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 – service concession arrangement are amortised on unit of usage over the concession period. The 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

24 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(c) Construction revenue recognition relating to service concession arrangement

In accordance with Hong Kong (IFRIC) Interpretation 12 Service Concession Arrangements, income and expenses associated with construction work and project management provided under the concession service arrangement are recognised Hong Kong Accounting Standard 11 Construction Contracts using the percentage of completion method. Revenue generated by construction work and project management services rendered by the Group is measured at the fair value of the consideration received or receivable.

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 year, the directors of the Company made estimates of the respective amounts by making reference to the management service fees derived from the Group's provision of project management services in relation to the Sui-Yue Expressway (Hunan Section) without the corresponding grant of the related toll road operating rights and entitlement to future toll revenues.

The directors of the Company have drawn an analogy of the construction of toll road under the service concession arrangement as if the Group were 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, computed at an estimated percentage of the costs.

In ascertaining the total construction costs, the directors made estimates based on information available such as budgeted project costs, actual project costs incurred/settled to date, and relevant independent 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 fees, the directors have made reference to the practice for determining management fees for management construction contracts transacted by the Group, whereby the fee is determined as an estimated percentage on the total budgeted costs of the project. Actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

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25 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Revised HKAS 24, Related party disclosures	1 January 2011
HKFRS 9, Financial instruments	1 January 2013
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011
Amendments to HKAS 12, Income taxes	1 January 2012

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.