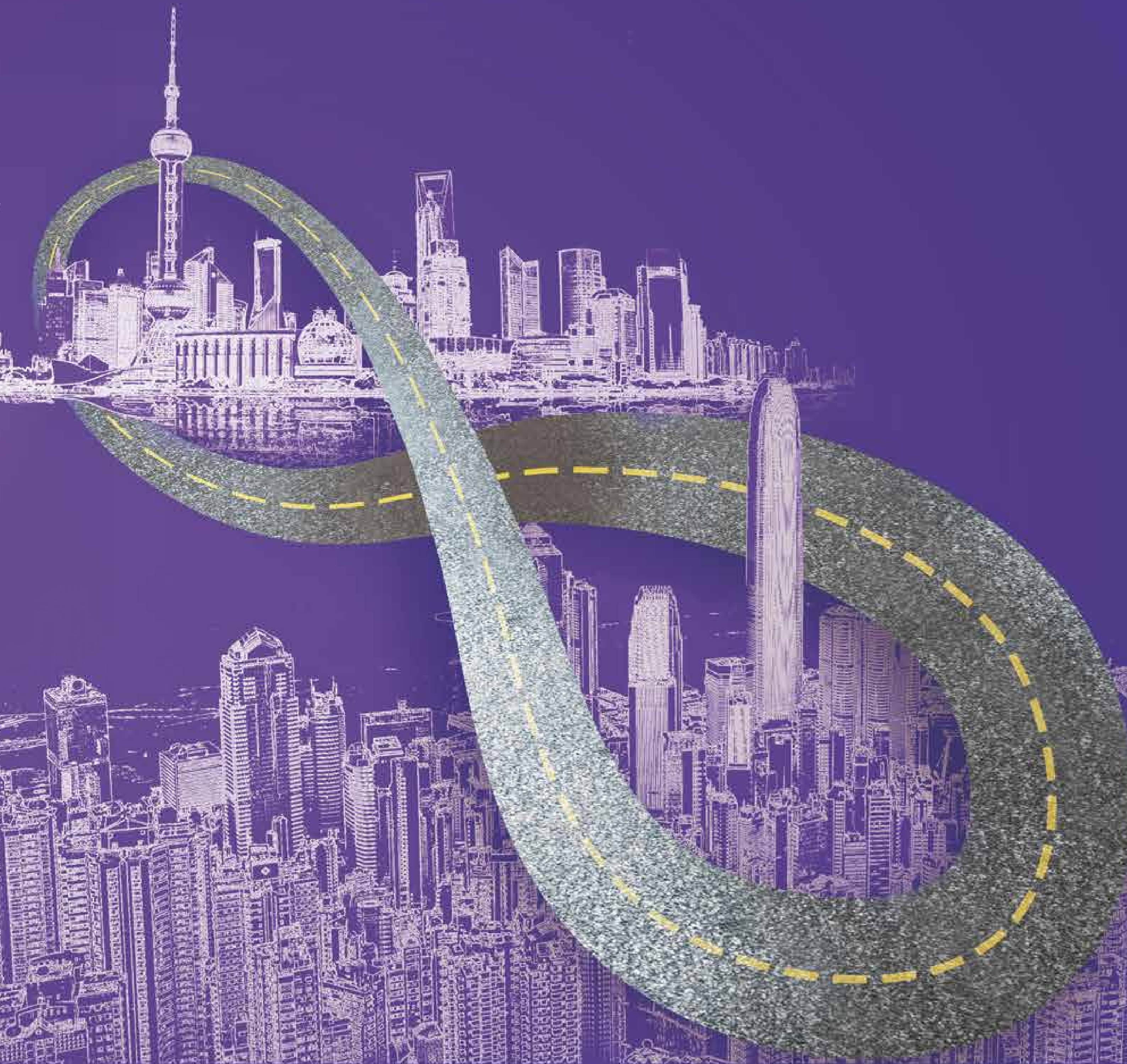
HUAYU EXPRESSWAY GROUP LIMITED
華昱高速集團有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1823



Annual Report 2012

Contents

Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Chan Yeung Nam *(Chairman)*
Mai Qing Quan *(Chief Executive Officer)*
Fu Jie Pin
Chen Min Yong
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
Fu Jie Pin

COMPANY SECRETARY

Sin Ka Man *HKICPA, FCCA*

AUTHORISED REPRESENTATIVES

Chan Yeung Nam
Sin Ka Man

REGISTERED OFFICE

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

HEADQUARTERS IN THE PRC

Flat A, Level 17, Block 1
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Changsha City
Hunan Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 919, 9/F
China Merchants Tower
Shun Tak Centre
Sheung Wan
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canda Trust Company (Cayman) Limited
4/F Royal Bank House,
24 Shedden Road, George Town
Grand Cayman
KY1-1110
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
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe
43/F, Gloucester Tower,
The Landmark,
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

China Merchants Bank
China Construction Bank Corporation
Wing Lung Bank

COMPANY WEBSITE

www.huayu.com.hk

STOCK CODE

1823

Financial Summary

For the year ended 31 December

RESULTS	**2012 HK$'000**	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Turnover	**138,908**	1,124,650	537,631	205,538	10,080
Loss before taxation	**(369,420)**	(282,212)	(11,321)	(15,687)	(3,221)
Income tax benefit/(expenses)	**83,202**	64,388	(314)	740	831
Loss for the year	**(286,218)**	(217,824)	(11,635)	(14,947)	(2,390)
Attributable to:					
Equity shareholders of the Company	**(258,726)**	(197,800)	(12,069)	(14,385)	(2,140)
Non-controlling interests	**(27,492)**	(20,024)	434	(562)	(250)
	(286,218)	(217,824)	(11,635)	(14,947)	(2,390)

At 31 December

ASSETS AND LIABILITIES	**2012 HK$'000**	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Total assets	**1,892,914**	2,186,322	1,253,597	1,041,287	137,954
Total liabilities	**(1,666,911)**	(1,673,870)	(557,377)	(399,422)	(28,298)
	226,003	512,452	696,220	641,865	109,656
Attributable to:					
Equity shareholders of the Company	**200,017**	458,951	628,348	610,999	98,716
Non-controlling interests	**25,986**	53,501	67,872	30,866	10,940
	226,003	512,452	696,220	641,865	109,656

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 (the "Group") for the year ended 31 December 2012.

2012 was a special year to the Group. It was the first year that we have a full year operating result from the Sui-Yue Expressway (Hunan Section) (the "Expressway"). Our Expressway commenced collecting toll revenue from December 2011. However, the global economy was gloomy during the year because of the Euro-zone sovereign debt crisis and the slowed down economic growth in China. Such factors seriously affected both the performance of our Expressway in 2012 and its asset value.

During 2011, we entered into a sales and purchase agreement together with two supplemental agreements to conditionally acquire the entire interest of Sumgreat Investments Limited and its subsidiaries, which in turn held interests in four toll road projects in Shenzhen, the PRC. Unfortunately, due to the volatility of the capital market, certain conditions precedent to such sales and purchase agreement, including the proposed placing of shares, were not satisfied. The acquisition did not proceed to completion after the lapse of the long stop date on 30 April 2012.

In view of recent rebound of China's GDP in the fourth quarter of 2012 and the improvement in the world economy, especially in the US, we are confident about the prospect of our Expressway. Although we currently only have one expressway project in the Group, our prospects are not limited to that project. In accordance with our strategy, we will pursue other infrastructure projects in China 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 Chinese government, if 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, 28 March 2013

Management Discussion And Analysis

2012 was the first year that the Group had a full year operation of the Expressway. The Group started to operate the Expressway and generate toll revenue from the Expressway since its commencement of operation in December 2011.

The global economy was gloomy during 2012 due to the Euro-zone sovereign debt crisis. Although the domestic economy of the PRC was still in an appreciation trend, growth has been slowing down. Both the GDP and the total import and export recorded a drop in the growth rate. Such factor resulted in a general shrinkage in the natural growth of toll highway projects.

FINANCIAL REVIEW

TURNOVER

For the year ended 31 December 2012, the Group recorded a turnover of approximately HK$138.9 million, dropped by 87.6% from that for the year ended 31 December 2011 of approximately HK$1,124.7 million. The decrease in the turnover was mainly due to the completion of the major construction works of the Expressway near the end of 2011. Among the turnover of the Group in 2012, there was only about HK$33.0 million construction revenue, which was only about 2.9% of that in 2011. In respect of the Expressway operation, the Group collected about HK$89.7 million of toll revenue from the Expressway. In addition, the Group received about HK$16.2 million rental income from the service station along the Expressway.

GROSS PROFIT

The Group reported a gross profit rate of about 43.6% for the year ended 31 December 2012 compared to about 2.2% for the year ended 31 December 2011. The increase was mainly attributed by the change of composition of the turnover of the Group and a shift from earning of construction revenue, which has only a nominal gross profit of about 2.2%, to collecting of toll revenue during the year.

OTHER REVENUE AND OTHER NET LOSS

The Group recorded other revenue and other net loss of approximately HK$0.4 million and HK$1.3 million (2011: HK$0.3 million and HK$0.4 million) respectively. Other revenue of the Group was mainly the rental income from the billboard along the Expressway and interest income from bank deposits. Other net loss represented the exchange difference and the change in fair value of derivative financial instrument.

The Group used interest rate swaps to convert the rate from floating to fixed rate basis to hedge part of the Group's underlying exposure. As at 31 December 2012, the Group had outstanding floating-to-fixed interest rate swaps contracts in the aggregate amount of HK$600 million (2011: HK$600 million). Change in fair value of such derivative financial instrument as at 31 December 2012 was about HK$1.6 million.

Management Discussion And Analysis

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2012 was approximately HK$31.2 million which was nearly the same as that for the year ended 31 December 2011. Since the commencement of the operation of the Expressway, most of the administrative expenses are related to the toll road operation while included in that of last year was about the professional fee incurred for the acquisition of the entire issued share capital of Sumgreat Investments Limited. The proposed acquisition was terminated because of the volatility of the capital market, which led to the non-satisfaction of certain condition precedent to the sales and purchase agreement.

IMPAIRMENT LOSS OF INTANGIBLE ASSETS

During the completion stage of the construction work in 2012, the sub-contractors have raised new claims regarding the changes of work done and price compensation for material used, which has led to an increase in construction costs of the Expressway by HK$77.1 million from the original estimate at 31 December 2011. On the other hand, after one full year of operation, the Directors noted that the actual traffic volume of the Expressway in 2012 was lower than the volume previously projected in March 2012. This is mainly affected by the following two factors:

1. On 2 August 2012, the State Council announced the Toll-Free on Major Festivals and Holidays for Small Passenger Vehicles Implementation Policy (《重大節日免小型客車通行費實施方案》) (the “Holiday Toll-Free Policy”). Pursuant to the Holiday Toll-Free Policy, small passenger vehicles with 7 seats or fewer would be entitled to use certain toll roads during major statutory holidays free of charge. Based on the actual traffic volume from 2 August 2012 to 31 December 2012 since such policy was first introduced, the Group has assessed the impact of such policy on the toll revenue of the Expressway and estimated there would be a decrease in toll revenue by approximately 3.3% annually resulting from the implementation of the Holiday Toll-Free Policy.

2. The downturn of the Euro economy environment has led to a significant slowdown of growth rate of China’s economy. Actual traffic flow for 2012 was 22% lower than the forecast performed in March 2012. The decrease in 2012 actual traffic volume does not only affect the 2013 forecast, but also the traffic volume projection for the remaining 26 years of the concession period of the Expressway since 2012 becomes the base year for the purpose of the forecast. Based on the valuer’s revised forecast performed in March 2013, it is estimated that the traffic flow would be 11.7% lower than the forecast performed in March 2012.

The Group has assessed the recoverable amount of the cash generating unit (CGU) containing the Expressway. Whilst there may be moderate increase in growth rate in the traffic flow, it is not enough to cover the effect of drop in traffic flow in the first year. As a result, the carrying amount of the intangible asset – service concession arrangement related to the Expressway was written down by HK$303.3 million (2011: HK$275.4 million) (included in the consolidated income statement).

Management Discussion And Analysis

Key assumptions used for the value in use calculation are as follows:

	2012	2011
Period of operation	**27 years**	27 years
Average annual toll revenue growth rate over the concession period	**8.9%**	8.4%
Discount rate	**12.5%**	12%

Discount rate

The discount rate is a post-tax measure estimated using the Capital Asset Pricing Model ("CAPM") based on the industry average ratios and the CGU's specific risks.

Average annual toll revenue growth rate over the concession period

The toll revenue growth rate was determined based on forecasted traffic volume growth and increase in toll rates. The average traffic volume growth rate is estimated to be 5.2% (2011: 4.9%) per annum over the concession period. A toll rate increase of 15% (2011: 15%) every 5 years is assumed in the forecast. Actual toll rate adjustments are subject to approval by the Provincial Price Control Bureau.

Sensitivity to changes in assumptions

Following the impairment on the intangible asset – service concession arrangement, its recoverable amount is equal to its carrying amount. Therefore, any adverse movement in a key assumption would lead to a further impairment. A sensitivity analysis on the discount rate and toll revenue has been performed by the Directors as follows.

Increase or decrease of the discount rate by 1%

	11.5%	12.5%	13.5%
Impairment loss (HK$)	187,494,000	303,345,000	397,169,000

Increase or decrease of the toll revenue by 5%

	Decrease 5%	Current estimate	Increase 5%
Impairment loss (HK$)	388,741,000	303,345,000	217,026,000

Management Discussion And Analysis

FINANCE COSTS

For the year ended 31 December 2012, finance costs was about HK$94.5 million while it was only about HK$0.3 million for the year ended 31 December 2011. According to the accounting policy of the Group, 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. Therefore, all the finance costs related to the construction of the Expressway are capitalised in the previous accounting periods. But after the commencement of the operation of the Expressway from December 2011, all the finance costs incurred were all expenses in the consolidated income statement of the Group.

LOSS FOR THE YEAR

As the Group incurred an impairment loss of intangible assets and ceased to capitalize its borrowing costs during the year, the loss for the year ended 31 December 2012 increased from approximately HK$217.8 million for the year ended 31 December 2011 to approximately HK$286.2 million.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2012, the Group financed its operations and capital expenditures by the capital of the Company and long-term secured bank loans. As at 31 December 2012, total bank loans drawn by the Group was about HK$1,336.6 million (2011: HK$1,213.8 million) and the total cash and cash equivalents, including bank deposits and cash on hand was amounted to approximately HK$21.8 million (2011: HK$168.2 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 2012, total available banking facilities of the Group amounted to HK$1,356.9 million from China Merchants Bank and Wing Lung Bank Limited, which is mainly for the construction cost of the Expressway, among which the outstanding secured bank loan was HK$1,336.6 million (2011: HK$1,213.8 million) (equivalent to RMB1,083.8 million (2011: RMB984 million)). The ratio of outstanding bank loans to equity holders' equity was 668.3% (2011: 264.4%).

Management Discussion And Analysis

As at 31 December 2012, the bank loans are repayable as follows:

	2012	2011
	HK$'000	HK$'000
Within 1 year	**601,578**	–
After 1 year but within 2 years	**24,666**	597,047
After 2 years but within 5 years	**147,996**	111,015
After 5 years	**562,385**	505,735
	1,336,625	1,213,797

The Group's borrowings were mainly arranged on a floating rate basis. In 2012, the Group used interest rate swaps to convert the rate from floating to fixed rate basis to hedge part of the Group's underlying interest rate fluctuation exposure. As at 31 December 2012, the Group had outstanding floating-to-fixed interest rate swap contracts in the aggregate amount of HK$600 million (2011: HK$600 million).

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 2012, 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 of the Company will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

PLEDGE OF ASSETS

As at 31 December 2012, the banking facilities of HK$1,356.9 million from China Merchants Bank and Wing Lung Bank Limited was secured by the pledge of the toll collection right in relation to the Expressway.

Management Discussion And Analysis

CAPITAL COMMITMENTS

Capital commitments outstanding as at 31 December 2012 which were not provided for in the financial statements of the Company were as follows:

	2012 **HK$'000**	2011 HK$'000
Contracted for	**–**	92,765

The capital commitments for the year 2011 represented the costs for the construction of the Expressway.

BUSINESS REVIEW

SUI-YUE EXPRESSWAY (HUNAN SECTION)

The Expressway is a dual three-lane expressway with a length of approximately 24.08 km and is connecting the southern end of the Jing-Yue Yangtze River Highway Bridge in Daorenji town to Kunshan in Yueyang City, and connecting to the Jing-Gang-Ao Expressway via Yueyang Connecting Line to reach Guangdong Province, Hong Kong and Macau.

The year 2012 was the first full year of operation of the Expressway. Total toll revenue collected for the year ended 31 December 2012 was about HK$89.7 million. Although it was lower than the previous projected figure, the management was satisfied with the result, especially under the adverse external economic environment.

PROPOSED ACQUISITION OF THE ENTIRE SHARE CAPITAL OF SUMGREAT INVESTMENTS LIMITED

On 12 April 2011, the Group entered into a share and purchase agreement between Mr. Chan Yeung Nam as seller and the Company as buyer dated 12 April 2011 (as supplemented by the first supplemental agreement and the second supplemental agreement entered into between the parties dated 30 September 2011 and 12 November 2011, respectively) to acquire the entire interest of Sumgreat Investments Limited and its subsidiaries. Sumgreat Investments Limited and its subsidiaries are mainly engaged in the construction, operation and management of expressway projects. At the time when the share purchase agreement was entered into, it has had infrastructure projects, namely the Shuiguan Expressway and Shuiguan Expressway Extension Line, which were in operation and revenue generating. It was also receiving fees from the provision of project management services in respect of the Shahe Road Project and the Hengping Road Project. In addition, there were two further infrastructure projects which were under construction at the time, namely the Shenzhen Qingping Expressway and the Shenzhen Eastern Expressway.

Management Discussion And Analysis

The Group was of the view that the acquisition will enable the Group to derive immediate substantial earnings and cash flow contribution. Furthermore, it was in line with the business strategy of the Group to pursue other infrastructure projects in China either by way of acquisition or capitalize on new opportunities. It also will enhance the Group's competitiveness and further strengthen the Group's reputation within the industry and improve its overall financial performance.

As stated in the announcement of the Company dated 2 May 2012, due to the volatility of the capital market, certain condition precedents to such sales and purchase agreement, including the proposed placing of up to 780,000,000 new ordinary shares with par value of HK$0.01 each in the share capital of the Company, have not been satisfied. The acquisition did not proceed to completion after the lapse of the long stop date on 30 April 2012.

For further details of the said acquisition, please refer to the announcements of the Company dated 12 April 2011, 30 September 2011, 14 November 2011 and 2 May 2012, and the circular of the Company dated 24 June 2011.

EMPLOYEES AND EMOLUMENTS

As at 31 December 2012, the Group employed a total of 221 (2011: 200) employees in the PRC and Hong Kong which included the management staff, engineers, technicians, etc. For the year ended 31 December 2012, the Group's total expenses on the remuneration of employees was approximately HK$20.8 million (2011: HK$15.6 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.

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 as at 31 December 2012.

Management Discussion And Analysis

PROSPECTS

The Expressway 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 Expressway will be an integral part of the major artery between Hunan Province and Hubei Province. With the construction of the Expressway completed and operations commenced in December 2011, the Company believes that the current relatively limited trading activities between the Wuhan-Jingzhou area in Hubei Province and the Yueyang area in Hunan Province would increase, resulting in significant vehicle turnover for the Expressway. Although there were adverse external economic factors and unfavourable government policy about the toll road operation, the management is still optimistic about the long term prospect of the Expressway in view of recent rebound of China's GDP in the fourth quarter of 2012. With the improvement in the world economy, especially in the US, the management of the Company are full of confidence about the prospect of the Chinese economy and our Expressway.

With the experience of 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 will aim to 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 may 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 below.

The Stock Exchange of Hong Kong Limited has made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and renamed it the Corporate Governance Code (the "New Code"). The New Code took effect on 1 April 2012.

The Company has adopted the New Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the year ended 31 December 2012, the Directors considered that the Company had complied with all the code provisions as set out in the Old Code for the period from 1 January 2012 to 31 March 2012, and those set out in the New Code for the period from 1 April 2012 to 31 December 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 for the year ended 31 December 2012.

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 2012, the Board comprises five 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 meetings of the Board of Directors, Board committees and General Meetings held during the year under review were summarised as follows:

	Board	General Meeting	Audit Committee	Remuneration Committee	Nomination Committee
	Note	*Note*	*Note*	*Note*	*Note*
Executive Directors					
Chan Yeung Nam	4/4	0/1	N/A	N/A	N/A
Mai Qing Quan	4/4	0/1	N/A	N/A	N/A
Fu Jie Pin	4/4	0/1	N/A	1/1	1/1
Chen Min Yong	4/4	1/1	N/A	N/A	N/A
Mao Hui	4/4	0/1	N/A	N/A	N/A
Independent Non-executive Directors					
Sun Xiao Nian	4/4	0/1	2/2	N/A	1/1
Chu Kin Wang, Peleus	4/4	0/1	2/2	1/1	N/A
Hu Lie Ge	4/4	0/1	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 Board has developed and reviewed the Company's policies and practices on corporate governance. It includes the review and monitor of the training and continuous professional development of directors and senior management; the Company's policies and practices on compliance with legal and regulatory requirements; the development, review and monitor the code of conduct of the Company's employees and directors; and review the Company's compliance with the code and disclosure in the Corporate Governance Report.

Corporate Governance Report

THE ROLES OF CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The division of responsibilities between the chairman of the Board and the chief executive officer of the Company ("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.

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 articles of association (the "Articles"), 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.

TERMS OF APPOINTMENT OF DIRECTORS

Each of the Directors (including executive Directors and independent non-executive Directors) has entered into a service contract with the Company for a term of three years commencing from 23 December 2009, renewable upon expiry. No Director 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 statutory compensation.

Corporate Governance Report

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to the New Code which came into effect from 1 April 2012, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Directors have been informed of the requirement under code provision A.6.5 of the New Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development during the period from 1 April 2012 to 31 December 2012:

	Training activities undertaken
Executive Directors	
Mr. Chan Yeung Nam	A
Mr. Mai Qing Quan	A
Mr. Fu Jie Pin	A
Mr. Chen Min Yong	A
Ms. Mao Hui	A
Independent Non-executive Directors	
Mr. Sun Xiao Nian	A
Mr. Chu Kin Wang Peleus	A and B
Mr. Hu Lie Ge	A

Notes:

A: attending briefing sessions and/or seminars

B: reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements

Corporate Governance Report

COMPANY SECRETARY

Mr. Sin Ka Man, the Company Secretary of the Company, reports to the Chairman. The details of his biographical is set out in the section headed "Director and Senior Management" of the annual report. Mr. Sin has been informed of the requirement of Rule 3.29 of the Listing Rules and he confirmed that he has taken no less than 15 hours relevant professional training during the financial year.

	Corporate Governance/ Updates on Laws, Rules and Regulations		Accounting/Financial/ Management or Other Professional Skills	
Name of company secretary	**Read materials**	**Attended Seminars/ Briefings**	**Read materials**	**Attended Seminars/ Briefings**
Mr. Sin Ka Man	✓	✓	✓	✓

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 on 21 May 2009 with written terms of reference in compliance with the old Code. For the purpose of complying with the New Code adopted by the Company on 31 March 2012, the Board has adopted revised terms of reference for the Audit Committee on 31 March 2012. The Audit Committee comprises three members, all are independent non-executive Directors, 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 2012, including the accounting principles and practice adopted by the Group.

Corporate Governance Report

The primary duties of the Audit Committee are mainly to make recommendations to the board on the appointment, reappointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; to discuss with the external auditor regarding the nature and scope of the audit and reporting obligations before the audit commences; to develop and implement policy on engaging an external auditor to supply non-audit services, identifying and making recommendations on any matters where action or improvement is needed; to monitor integrity of the Company's financial statements, annual report, accounts and half-year report; and to review significant financial reporting judgements contained in them.

During the year ended 31 December 2012, the Audit Committee had held two meeting and the Audit Committee reviewed the interim and annual results and the interim and annual reports; met with external auditor to ensure appropriate accounting principles and practices adopted by the Group; and assisted the Board in meeting its responsibilities for maintaining an effective system of internal control.

REMUNERATION COMMITTEE

The remuneration committee of the Company ("Remuneration Committee") was established on 21 May 2009 with written terms of reference in compliance with the old Code. For the purpose of complying with the New Code adopted by the Company on 31 March 2012, the Board has adopted revised terms of reference for the Remuneration committee on 31 March 2012. During the reporting period, the Remuneration Committee comprises three members, namely Mr. Hu Lie Ge, Mr. Chu Kin Wang, Peleus and Mr. Fu Jie Pin. Mr. Hu Lie Ge, an independent non-executive Director, is the chairman of the remuneration committee.

The primary duties of the Remuneration Committee are to make recommendations to the board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; to make recommendation to the Board on the remuneration packages of individual executive Directors and senior management including benefits in kind, pension rights and compensation payments, to make recommendations to the board on the remuneration of non-executive Directors; taking into account salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; and to ensure that no director or any of his associates is involved in deciding his own remuneration. The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications 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 the executive Directors may receive a discretionary bonus as the Board may recommend, the aggregate amount for all executive Directors shall not exceed 10% of the audited consolidated net profits of the Group for the relevant financial year. Such amount has to be approved by the Remuneration Committee. The Remuneration Committee has held one meeting to review and approve the remuneration packages of Directors and senior management of the Group for the year ended 31 December 2012.

Corporate Governance Report

NOMINATION COMMITTEE

The nomination committee of the Company ("Nomination Committee") was established on 21 May 2009 with written terms of reference in compliance with the old Code. For the purpose of complying with the New Code adopted by the Company on 31 March 2012, the Board has adopted revised terms of reference for the Nomination Committee on 31 March 2012. During the reporting period, the Nomination Committee comprises three members, namely Mr. Sun Xiao Nian, Mr. Hu Lie Ge and Mr. Fu Jie Pin. Mr. Sun Xiao Nian, an independent non-executive Director, is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board annually and make recommendations on any proposed changes to the Board to complement the corporate's strategy; identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for Directorships; assess the independence of independent non-executive Directors; and make recommendations to the Board on the appointment or reappointment of Directors and succession planning for directors, in particular the Chairman and the Chief Executive Officer.

The Nomination Committee has held one meeting for the year ended 31 December 2012 to nominate the members of Board for retirement and re-election at the forthcoming Annual General Meeting, to review, the structure, size and composition of the Board.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration bands	Number of persons
HK$Nil to HK$1,000,000	4

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 7 and 8 to the financial statements, respectively.

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

GOING CONCERN BASIS

As at 31 December 2012, the Group's current liabilities exceed its current assets by approximately HK$831,802,000. The Group's ability to continue to operate as a going concern depends upon the ongoing support from the Group's bankers and its ability to generate sufficient cash flows from future operations to cover the Group's operating costs and to meet its financing commitments. These conditions, along with other matters as set forth in note 1(b) to the consolidated financial statements, indicated the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The Directors have made an assessment and concluded that the Group is able to continue as a going concern for at least twelve months and to meet its obligations, as and when they fall due, having regard to the following:

(i) the Group expects to generate positive operating cash flows for the year ending 31 December 2013;

(ii) the Group has secured a contractual right to draw down from a long-term secured bank loan facility of HK$598,594,000 to repay the bank loan of HK$589,245,000 when it falls due in 2013 or should it be recalled on demand by the bank. Based on the cash flow forecast, the Group expects to meet the remaining scheduled repayment obligations in 2013. In addition, the Group expects to comply with bank covenants so that immediate demand for payment is not expected to be triggered;

(iii) at 31 December 2012, the Group's construction payables include contract retention deposits of HK$74,945,000. Subsequent to 31 December 2012, the Group has entered into agreements with certain contractors to extend the payment dates of a total amount of HK$74,945,000 to 2014;

(iv) advance receipt of HK$112,230,000 represents prepayment of operating lease rental by lessees and is expected to be recognised as income rather than refunded;

(v) subsequent to 31 December 2012, the controlling shareholder of the Company has advanced RMB15,000,000 (equivalent to HK$18,750,000) to the Group and has undertaken that repayment will not be requested until the Group is in a position to meet all repayment obligations; and

(vi) the Group is in the process of applying to obtain additional long term bank loan facilities to cover the additional construction cost incurred.

Based on the foregoing, the Board is of the view that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Corporate Governance Report

AUDITORS' REMUNERATION

For the year ended 31 December 2012, 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	1,850
Other services	–
Total	1,850

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.

During the year, the Board has conducted reviews of the internal control system of the Company and considered the internal control system of the Company has implemented effectively. During the year ended 31 December 2012, the Board reviewed the effectiveness of the Group's internal control system. The review covered all material controls, including financial, operational and compliance controls and risk management functions. The Board also considered the Group's adequacy of resources, qualifications and experience of staff in its accounting and financial reporting functions, and their training programmes and budget.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

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.

Corporate Governance Report

VOTING BY POLL

Resolutions put to vote at the general meetings of the Company (other than on procedural and administrative matters) are taken by poll. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered. 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 respectively.

CONVENING OF EXTRAORDINARY GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

Pursuant to article 57 of the Articles, each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting. The Board may whenever it thinks fit call extraordinary general meetings. Any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

Any Shareholder who wish to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the Board's consideration not less than 7 days prior to the date of a general meeting through the Company Secretary whose contact details are set out in the paragraph "Procedures for directing shareholders' enquiries to the Board" below.

Corporate Governance Report

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

The Company Secretary
Huayu Expressway Group Limited
Room 919, 9/F, China Merchants Tower, Shuk Tak Centre, Sheung Wan, Hong Kong
Email: kenneth.sin@huayu.com.hk
Tel No.: +852 2559 1210
Fax No.: +852 2559 1026

The Company Secretary shall forward the shareholders' enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, to respond to such enquires.

CONSTITUTIONAL DOCUMENTS

As at 31 December 2012, the Group confirmed that there has been no change to the memorandum of association of the Company and the Articles.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chan Yeung Nam（陳陽南）, aged 57, is an executive Director and the Chairman of the Board. 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 15 years of experience in the development, operation and management of highways.

Mr. Mai Qing Quan（麥慶泉）, aged 63, is an executive Director and the Chief Executive Officer. 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 8 years of experience in investment, construction and operation of expressway projects in the PRC.

Mr. Fu Jie Pin（符捷頻）, aged 45, 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 15 years of experience in development, operation and management of highways in the PRC.

Mr. Chen Min Yong（陳民勇）, aged 43, 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 commence 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 14 years of experience in operation and management of highway projects.

Ms. Mao Hui（毛惠）, aged 36, 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 13 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 48, 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 48, 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, Flyke International Holdings Limited, China Vehicle Components Technology Holdings Limited and EYANG Holdings (Group) Co., Limited, all of which are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr. Hu Lie Ge (胡列格) aged 59, 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 43, 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 (Xi'an Institute of Metallurgy and Construction)*, currently known as Xi'an University of Architecture and Technology, with a bachelor degree in engineering majoring in industrial and civil architecture. Mr. Gan has over 13 years of experience in the management of construction projects.

Mr. Chen Jing An (陳景安) aged 64, 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 15 years of experience in the design and technical management of highways projects in the PRC.

Ms. Liu Dan Yi (劉丹宜) aged 52, 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 24 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.*

Directors and Senior Management

COMPANY SECRETARY

Mr. Sin Ka Man（冼家敏）aged 45, was appointed as the company secretary of the Company on 3 July 2009. Mr. Sin has over 20 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He became an associate member of The Hong Kong Institute of Certified Public Accountants (the "HKICPA") (formerly known as Hong Kong Society of Accountants) in January 1996, a fellow member of the Association of Chartered Certified Accountants in July 1997 and a certified practising accountant of the CPA Australia in December 2000. Mr. Sin obtained his bachelor degree in Social Sciences from the University of Hong Kong in December 1989, master degree in Finance from the University of Strathclyde, the United Kingdom in November 1993 and a master degree in Accounting from Curtin University of Technology, Australia in June 1998.

Report of the Directors

The Board presents this annual report together with the audited consolidated financial statements for the year ended 31 December 2012.

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company is 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 Room 919, 9/F, China Merchants 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 12 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, the Group have no major customer information to disclose as the Expressway is open to public. No further disclosure with regard to the Group's suppliers are made since there is normally no major purchase in its ordinary course of business.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2012 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 36 to 96.

RESERVES

Details of movements in the reserve of the Company from the date of incorporation to 31 December 2012 are set out in note 19 to the consolidated financial statements.

Losses attributable to shareholders of the Company HK$286,218,000 (2011: HK$217,824,000) 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 2012 (2011: HK$Nil).

Report of the Directors

CHARITABLE DONATIONS

No charitable donations were made by the Group during the year ended 31 December 2012 (2011: HK$Nil).

FIXED ASSETS

Details of the movements in fixed assets during the year ended 31 December 2012 are set out in note 10 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 2012 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 2012.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles 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. Fu Jie Pin
Mr. Chen Min Yong
Ms. Mao Hui

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Report of the Directors

In accordance with article 83 of the Articles, 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.

By virtue of articles 84 and 85 of the Articles, Mr. Chan Yeung Nam, Mr. Mai Qing Quan and Mr. Fu Jie Pin 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 has entered into a service contract with the Company for an initial term of three years commencing from 23 December 2009 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 2012, 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 contained in the 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.

Report of the Directors

Apart from the forgoing, as at 31 December 2012, 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).

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.

Report of the Directors

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

As at 31 December 2012, 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 2012.

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 LOANS

Particulars of bank loans of the Group as at 31 December 2012 are set out in note 17 to the financial statements.

Report of the Directors

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$25,000 (HK$20,000 prior to June 2012). 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 2012 amounted to HK$2,408,000 (2011: HK$564,000).

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.

CORPORATE GOVERNANCE CODE

The Stock Exchange of Hong Kong Limited has made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and renamed it the Corporate Governance Code (the "New Code"). The New Code took effect on 1 April 2012.

The Company has adopted the New Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the year ended 31 December 2012, the Directors considered that the Company had complied with all the code provisions as set out in the Old Code for the period from 1 January 2012 to 31 March 2012, and those set out in the New Code for the period from 1 April 2012 to 31 December 2012.

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 December 2012.

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 2012.

AUDITORS

KPMG will retire and being eligible, 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, 28 March 2013

Independent Auditor's Report

Independent auditor's report to the shareholders of Huayu Expressway Group Limited

(Incorporated in the 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 36 to 96, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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.

Independent Auditor's Report

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.

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 2012 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.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 1(b) to the consolidated financial statements which indicates that as of 31 December 2012, the Group's current liabilities exceed its current assets by approximately HK$831,802,000. As explained in note 1(b) to the consolidated financial statements, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support from the Group's bankers and the Group's ability to generate sufficient cash flows from future operations to cover the Group's operating costs and to meet its financing commitments. These conditions, along with other matters as set forth in note 1(b) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
28 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Turnover	3	**138,908**	1,124,650
Cost of sales		**(78,404)**	(1,099,807)
Gross profit		**60,504**	24,843
Other revenue	4	**403**	342
Other net loss	4	**(1,321)**	(374)
Administrative expenses		**(31,173)**	(31,239)
Impairment loss of intangible asset	11	**(303,345)**	(275,464)
Loss from operations		**(274,932)**	(281,892)
Finance costs	5(a)	**(94,488)**	(320)
Loss before taxation	5	**(369,420)**	(282,212)
Income tax	6(a)	**83,202**	64,388
Loss for the year		**(286,218)**	(217,824)
Attributable to:			
Equity shareholders of the Company		**(258,726)**	(197,800)
Non-controlling interests		**(27,492)**	(20,024)
Loss for the year		**(286,218)**	(217,824)
Loss per share (HK cents)			
Basic and diluted	9	**(62.71)**	(47.94)

The notes on pages 44 to 96 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Loss for the year	**(286,218)**	(217,824)
Other comprehensive income for the year		
Exchange differences on translation of financial statements of a subsidiary outside Hong Kong, net of nil tax	**(231)**	31,526
Total comprehensive income for the year	**(286,449)**	(186,298)
Attributable to:		
Equity shareholders of the Company	**(258,934)**	(169,397)
Non-controlling interests	**(27,515)**	(16,901)
Total comprehensive income for the year	**(286,449)**	(186,298)

The notes on pages 44 to 96 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	**2012 HK$'000**	2011 HK$'000
Non-current assets			
Property, plant and equipment	10	**28,765**	2,367
Intangible asset – service concession arrangement	11	**1,680,888**	1,936,165
Deferred tax assets	18	**149,556**	66,341
		1,859,209	2,004,873
Current assets			
Prepayments and other receivables	13	**11,896**	13,226
Cash at bank and on hand	14(a)	**21,809**	168,223
		33,705	181,449
Current liabilities			
Derivative financial instrument	15	**1,966**	335
Accruals and other payables	16	**259,657**	420,755
Amount due to a related company	23(c)	**2,306**	1,300
Bank loans	17	**601,578**	584,712
		865,507	1,007,102
Net current liabilities		**(831,802)**	(825,653)
Total assets less current liabilities		**1,027,407**	1,179,220
Non-current liabilities			
Bank loans	17	**735,047**	629,085
Amount due to the controlling shareholder of the Company	23(c)	**66,357**	37,683
		801,404	666,768
NET ASSETS		**226,003**	512,452

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	**2012** **HK$'000**	2011 HK$'000
CAPITAL AND RESERVES	19		
Share capital		**4,126**	4,126
Reserves		**195,891**	454,825
Total equity attributable to equity shareholders of the Company		**200,017**	458,951
Non-controlling interests		**25,986**	53,501
TOTAL EQUITY		**226,003**	512,452

Approved and authorised for issue by the board of directors on 28 March 2013.

Chan Yeung Nam
Director

Mai Qing Quan
Director

The notes on pages 44 to 96 form part of these financial statements.

Statement of Financial Position

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Interests in subsidiaries	12	**122,692**	327,450
Current assets			
Amounts due from subsidiaries		**125,817**	116,873
Cash and cash equivalents	14(a)	**827**	1,154
		126,644	118,027
Current liabilities			
Amounts due to subsidiaries		**2,672**	2,672
Accruals and other payables	16	**3,342**	3,902
		6,014	6,574
Net current assets		**120,630**	111,453
Total assets less current liabilities		**243,322**	438,903
Non-current liabilities			
Amount due to the controlling shareholder of the Company	23(c)	**28,517**	12,114
NET ASSETS		**214,805**	426,789

The notes on pages 44 to 96 form part of these financial statements.

Statement of Financial Position

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
CAPITAL AND RESERVES	19		
Share capital		**4,126**	4,126
Reserves		**210,679**	422,663
TOTAL EQUITY		**214,805**	426,789

Approved and authorised for issue by the board of directors on 28 March 2013.

Chan Yeung Nam
Director

Mai Qing Quan
Director

The notes on pages 44 to 96 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

		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 2012		4,126	130,044	502,784	49,454	(227,457)	458,951	53,501	512,452
Changes in equity for 2012:									
Loss for the year		–	–	–	–	(258,726)	(258,726)	(27,492)	(286,218)
Other comprehensive income									
– Exchange differences		–	–	–	(208)	–	(208)	(23)	(231)
Total comprehensive income for the year		–	–	–	(208)	(258,726)	(258,934)	(27,515)	(286,449)
Balance at 31 December 2012		4,126	130,044	502,784	49,246	(486,183)	200,017	25,986	226,003
Balance at 1 January 2011		4,126	130,044	502,784	21,051	(29,657)	628,348	67,872	696,220
Changes in equity for 2011:									
Loss for the year		–	–	–	–	(197,800)	(197,800)	(20,024)	(217,824)
Other comprehensive income									
– Exchange differences		–	–	–	28,403	–	28,403	3,123	31,526
Total comprehensive income for the year		–	–	–	28,403	(197,800)	(169,397)	(16,901)	(186,298)
Capital injection by non-controlling interests to a subsidiary		–	–	–	–	–	–	2,530	2,530
Balance at 31 December 2011		4,126	130,044	502,784	49,454	(227,457)	458,951	53,501	512,452

The notes on pages 44 to 96 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Net cash generated from operating activities	14(b)	**46,212**	89,649
Investing activities			
Payment for the purchase of property, plant and equipment		**(31,987)**	(971)
Payment for intangible asset		**(218,478)**	(816,456)
Interest received		**92**	342
Net cash used in investing activities		**(250,373)**	(817,085)
Financing activities			
Proceeds from bank loans		**117,913**	729,337
Increase in amount due to the controlling shareholder of the Company		**28,674**	37,682
Capital contribution by non-controlling interests		**–**	2,530
Interest paid		**(88,808)**	(33,233)
Net cash generated from financing activities		**57,779**	736,316
Net (decrease)/increase in cash and cash equivalents		**(146,382)**	8,880
Cash and cash equivalents at 1 January		**159,588**	157,226
Effect of foreign exchange rate changes		**(30)**	(6,518)
Cash and cash equivalents at 31 December	14(a)	**13,176**	159,588

The notes on pages 44 to 96 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 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.

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 1(c) 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.

(B) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2012 comprise the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for derivative financial instruments (see note 1(e)).

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 2.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(B) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

At 31 December 2012, the Group's net current liabilities were HK$831,802,000. The directors have made an assessment and concluded that the Group is able to continue as a going concern for at least twelve months and to meet its obligations, as and when they fall due, having regard to the following:

i the Group expects to generate positive operating cash flows for the year ending 31 December 2013;

ii the Group has secured a contractual right to draw down from a long-term secured bank loan facility of HK$598,594,000 to repay the bank loan of HK$589,245,000 when it falls due in 2013 or should it be recalled on demand by the bank. As stated in note 17, based on the cash flow forecast, the Group expects to meet the remaining scheduled repayment obligations in 2013. In addition, the Group expects to comply with bank covenants so that immediate demand for payment is not expected to be triggered.

iii at 31 December 2012, the Group's construction payables include contract retention deposits of HK$74,945,000. Subsequent to 31 December 2012, the Group has entered into agreements with certain contractors to extend the payment dates of a total amount of HK$74,945,000 to 2014;

iv advance receipt of HK$112,230,000 represents prepayment of operating lease rental by lessees and is expected to be recognised as income rather than refunded;

v subsequent to 31 December 2012, the controlling shareholder of the Company has advanced RMB15,000,000 (equivalent to HK$18,750,000) to the Group and has undertaken that repayment will not be requested until the Group is in a position to meet all repayment obligations; and

vi the Group is in the process of applying to obtain additional long term bank loan facilities to cover the additional construction cost incurred.

Consequently, the financial statements have been prepared on a going concern basis.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(C) CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. None of the developments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(D) 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 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)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(D) 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 1(k) or (l) 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 1(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(E) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation 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:

–	Toll station and ancillary equipment	5 – 10 years
–	Other machinery and equipment	5 years
–	Motor vehicles	5 years
–	Furniture and fixtures	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(G) 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 impairment losses (see note 1(i)).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(G) INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT (continued)

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.

(H) 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 term, 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)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) 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.

(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 asset – service concession arrangement.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *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)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) IMPAIRMENT OF ASSETS (continued)

(ii) Impairment of other assets (continued)

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if 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 years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(J) RECEIVABLES

Receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(i)), 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 allowance for impairment of doubtful debts (see note 1(i)).

(K) 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(L) 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.

(M) 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.

(N) EMPLOYEE BENEFITS

(i) Short term employee benefits and contributions to defined contribution retirement plans

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.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(O) 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 the relevant amounts 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(O) INCOME TAX (continued)

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 certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(O) INCOME TAX (continued)

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 Company or) 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 Company or 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.

(P) 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(Q) 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) Toll revenue

Toll revenue from operation of toll road is recognised on a receipt basis, net of business tax and surcharges.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset.

Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) 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)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(R) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated 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 Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates 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.

(S) 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.

(T) RELATED PARTIES

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(T) RELATED PARTIES (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(U) 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)

2 ACCOUNTING JUDGEMENT AND ESTIMATES

Note 20 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(A) 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 in accordance with 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(B) 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.

(C) AMORTISATION OF INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

The Group applied IFRIC 12 and recognised intangible asset – service concession arrangement and provides amortisation thereon.

Amortisation of intangible asset – service concession arrangement is provided on unit of usage over the concession period. Material adjustments may need to be made to the carrying amounts of intangible assets – service concession arrangement should there be a material difference between total projected traffic volume and the actual results.

The directors perform a periodic assessment of the total projected traffic volume and will prospectively adjust the amortisation unit according to revised projected traffic volume.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 TURNOVER

The principal activities of the Group are construction, operation and management of an expressway in the PRC.

Turnover during the year represented revenue from construction work, project management services, operation of the expressway under the service concession arrangement and leasing of service zone. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2012	2011
	$'000	$'000
Construction revenue in respect of service concession arrangements	**32,966**	1,123,981
Toll income	**89,694**	669
Rental income	**16,248**	–
	138,908	1,124,650

4 OTHER REVENUE AND NET LOSS

	2012	2011
	$'000	$'000
Other revenue		
Billboard rental income	**311**	–
Interest income from bank deposits	**92**	342
	403	342
Other net loss		
Exchange (gain)/loss	**(37)**	39
Change in fair value of a derivative financial instrument	**1,631**	335
Others	**(273)**	–
	1,321	374

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

5 LOSS BEFORE TAXATION

LOSS BEFORE TAXATION IS ARRIVED AT AFTER CHARGING:

		2012 $'000	2011 $'000
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	**55,777**	9,034
	Interest on bank loans repayable beyond five years	**38,711**	29,878
	Total interest expense on bank loans	**94,488**	38,912
	Less: Interest expense capitalised into intangible asset*	**–**	(38,592)
		94,488	320

* There is no borrowing costs capitalised for the year ended 31 December 2012 (2011: borrowing costs had been capitalised at a rate of 5.760 – 6.685% per annum).

		2012 $'000	2011 $'000
(b)	Staff costs:		
	Salaries, wages and other benefits	**18,378**	15,025
	Contributions to defined contribution retirement plans	**2,408**	564
		20,786	15,589

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

5 LOSS BEFORE TAXATION (continued)

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

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 HK$25,000 (HK$20,000 prior to June 2012). 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.

		2012	2011
		$'000	$'000
(c)	Other items:		
	Auditors' remuneration		
	– Audit and review services	**1,850**	1,800
	– Other services	**–**	1,528
	Depreciation (note 10)	**5,390**	543
	Amortisation (note 11)	**28,857**	288
	Impairment loss of intangible asset (note 11)	**303,345**	275,464
	Operating lease charges in respect of rental of office premises	**1,429**	1,117

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(A) TAXATION IN THE CONSOLIDATED INCOME STATEMENT REPRESENTS:

	2012 $'000	2011 $'000
Deferred tax		
Reversal and origination of temporary differences (note 18)	**(83,202)**	(64,388)

(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 2012 and 2011.

(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% (2011: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the subsidiary sustained a loss for taxation purpose. Deferred tax arises from impairment loss and construction profit of intangible asset – service concession arrangement.

(B) RECONCILIATION BETWEEN TAX CREDITS AND ACCOUNTING LOSS AT APPLICABLE TAX RATES:

	2012 $'000	2011 $'000
Loss before taxation	**(369,420)**	(282,212)
Notional tax on loss before taxation, calculated at the rates applicable to losses in the tax jurisdictions concerned	**(90,202)**	(66,878)
Tax effect on tax losses not recognised	**7,000**	2,498
Tax effect on non-taxable income	**–**	(8)
Income tax credits	**(83,202)**	(64,388)

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

7 DIRECTORS' REMUNERATION

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

Year ended 31 December 2012

	Directors' fees $'000	Salaries, allowances and other benefits in kind $'000	Retirement scheme contributions $'000	Discretionary bonuses $'000	Total $'000
Executive directors					
Mr Chan Yeung Nam	1,180	970	22	162	2,334
Mr Mai Qing Quan	885	875	–	73	1,833
Mr Chen Kai Shu	49	688	–	70	807
Mr Fu Jie Pin	590	626	76	104	1,396
Mr Chen Min Yong	443	208	74	35	760
Mr Zhang Bo Qing	37	188	61	34	320
Mr Yue Feng	37	–	–	–	37
Ms Mao Hui	443	195	22	19	679
Independent non-executive directors					
Mr Sun Xiao Nian	61	–	–	–	61
Mr Chu Kin Wang, Peleus	148	–	–	–	148
Mr Hu Lie Ge	61	–	–	–	61
Total	3,934	3,750	255	497	8,436

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

7 DIRECTORS' REMUNERATION (continued)

Year ended 31 December 2011

	Directors' fees $'000	Salaries, allowances and other benefits in kind $'000	Retirement scheme contributions $'000	Discretionary bonuses $'000	Total $'000
Executive directors					
Mr Chan Yeung Nam	1,157	797	21	79	2,054
Mr Mai Qing Quan	868	695	–	71	1,634
Mr Chen Kai Shu	578	613	–	56	1,247
Mr Fu Jie Pin	578	544	66	51	1,239
Mr Chen Min Yong	434	205	66	17	722
Mr Zhang Bo Qing	434	185	41	15	675
Mr Yue Feng	434	–	–	–	434
Ms Mao Hui	434	184	42	15	675
Independent non-executive directors					
Mr Sun Xiao Nian	60	–	–	–	60
Mr Chu Kin Wang, Peleus	145	–	–	–	145
Mr Hu Lie Ge	60	–	–	–	60
Total	5,182	3,223	236	304	8,945

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2011: four) are directors whose emoluments are disclosed in note 7 above.

The aggregate of the emoluments in respect of the remaining one (2011: one) individual is as follows:

	2012 **$'000**	2011 $'000
Salaries and other emoluments	**960**	960
Discretionary bonuses	**80**	80
Retirement scheme contributions	**14**	12
	1,054	1,052

The emolument of the one (2011: one) individual with the highest emolument is within the following bands:

	2012 **Number of individuals**	2011 Number of individuals
$1,000,001 – $1,500,000	**1**	1

9 LOSS PER SHARE

(A) LOSS PER SHARE

	2012 **$'000**	2011 $'000
Issued ordinary shares at 1 January	**412,608**	412,608
Weighted average number of ordinary shares at 31 December	**412,608**	412,608

The calculation of loss per share is based on the consolidated loss attributable to ordinary equity shareholders of the Company of HK$258,726,000 (2011: HK$197,800,000) and the weighted average number of 412,608,000 (2011: 412,608,000) 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)

10 PROPERTY, PLANT AND EQUIPMENT

THE GROUP:

	Toll station and ancillary equipment $'000	Other machinery and equipment $'000	Motor vehicles $'000	Furniture and fixtures $'000	Total $'000
Cost:					
At 1 January 2011	–	–	2,541	360	2,901
Additions	–	–	928	43	971
Exchange adjustments	–	–	138	16	154
At 31 December 2011	–	–	3,607	419	4,026
At 1 January 2012	–	–	3,607	419	4,026
Additions	25,992	1,703	363	3,930	31,988
Disposals	–	–	(450)	–	(450)
Exchange adjustments	82	5	(1)	12	98
At 31 December 2012	26,074	1,708	3,519	4,361	35,662
Accumulated depreciation:					
At 1 January 2011	–	–	902	154	1,056
Charge for the year	–	–	475	68	543
Exchange adjustments	–	–	52	8	60
At 31 December 2011	–	–	1,429	230	1,659
At 1 January 2012	–	–	1,429	230	1,659
Charge for the year	3,782	207	623	778	5,390
Written back on disposals	–	–	(170)	–	(170)
Exchange adjustments	12	1	3	2	18
At 31 December 2012	3,794	208	1,885	1,010	6,897
Net book value:					
At 31 December 2012	22,280	1,500	1,634	3,351	28,765
At 31 December 2011	–	–	2,178	189	2,367

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

	The Group	
	2012	2011
	$'000	$'000
Cost:		
At 1 January	**2,211,923**	1,007,258
Additions	**77,086**	1,132,064
Exchange adjustments	**(115)**	72,601
At 31 December	**2,288,894**	2,211,923
Accumulated amortisation:		
At 1 January	**294**	–
Charge for the year	**28,857**	288
Exchange adjustments	**91**	6
At 31 December	**29,242**	294
Impairment loss:		
At 1 January	**275,464**	–
Charge for the year	**303,345**	275,464
Exchange adjustment	**(45)**	–
At 31 December	**578,764**	275,464
Net book value:		
At 31 December	**1,680,888**	1,936,165

The service concession arrangement represents the Group's rights to operate the Expressway and receive toll fees there from.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT (continued)

During the year, the Group recorded revenue of approximately $32,966,000 (2011: $1,123,981,000), representing the fair value of the construction work (excluded land collection costs) and project management services provided, with the same amounts recognised as intangible asset – service concession arrangement.

In accordance with the accounting policy set out in note 1(g), the Group recognised land collection costs of $44,120,000 (2011: $8,083,000) during the year as intangible asset – service concession arrangement.

In accordance with the accounting policy set out in note 1(g), the amortisation of intangible asset-service concession arrangement is recognised in profit or loss 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.

IMPAIRMENT LOSS

During the completion stage of the construction work in 2012, the sub-contractors have raised new claims regarding the changes of work done and price compensation for material used, which has led to an increase in construction costs of the Expressway by $77,086,000 from the original estimate at 31 December 2011. On the other hand, after one full year of operation, the Directors noted that the actual traffic volume of the Expressway in 2012 was lower than the volume previously projected in March 2012. This is mainly affected by the following two factors:

(1) On 2 August 2012, the State Council announced the Toll-Free on Major Festivals and Holidays for Small Passenger Vehicles Implementation Policy（《重大節日免小型客車通行費實施方案》）(the "Holiday Toll-Free Policy"). Pursuant to the Holiday Toll-Free Policy, small passenger vehicles with 7 seats or fewer would be entitled to use certain toll roads during major statutory holidays free of charge. Based on the actual traffic volume from 2 August 2012 to 31 December 2012 since such policy was first introduced, the Group has assessed the impact of such policy on the toll revenue of the Expressway and estimated there would be a decrease in toll revenue by approximately 3.3% annually resulting from the implementation of the Holiday Toll-Free Policy.

(2) The downturn of the Euro economy environment has led to a significant slowdown of growth rate of China's economy. Actual traffic flow for 2012 was 22% lower than the forecast performed in March 2012. The decrease in 2012 actual traffic volume does not only affect the 2013 forecast, but also the traffic volume projection for the remaining 26 years of the concession period of the Expressway since 2012 becomes the base year for the purpose of the forecast. Based on the valuer's revised forecast performed in March 2013, it is estimated that the traffic flow would be 11.7% lower than the forecast performed in March 2012.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT (continued)

IMPAIRMENT LOSS (continued)

The Group has assessed the recoverable amount of the cash generating unit (CGU) containing the Expressway. Whilst there may be moderate increase in growth rate in the traffic flow, it is not enough to cover the effect of drop in traffic flow in the first year. As a result, the carrying amount of the intangible asset-service concession arrangement related to the Expressway was written down by $303,345,000 (2011: $275,464,000) (included in the consolidated income statement).

The recoverable amount of the CGU was determined by the value in use, based on the expected free cash flow up to the end of the service concession arrangement period, and a post-tax discount rate of 12.5% (equivalent to a pre-tax discount rate of 14.2%) (2011: a post-tax discount rate of 12% (equivalent to a pre-tax discount rate of 13.8%)).

The impairment loss was fully allocated to the intangible asset – service concession arrangement.

Key assumptions used for the value in use calculation are as follows:

	2012	2011
Period of operation	**27 years**	27 years
Average annual toll revenue growth rate over the concession period	**8.9%**	8.4%
Discount rate	**12.5%**	12%

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT (continued)

DISCOUNT RATE

The discount rate is a post-tax measure estimated using the Capital Asset Pricing Model ("CAPM") based on the industry average ratios and the CGU's specific risks.

AVERAGE ANNUAL TOLL REVENUE GROWTH RATE OVER THE CONCESSION PERIOD

The toll revenue growth rate was determined based on forecasted traffic volume growth and increase in toll rates. The average traffic volume growth rate is estimated to be 5.2% (2011: 4.9%) per annum over the concession period. A toll rate increase of 15% (2011: 15%) every 5 years is assumed in the forecast. Actual toll rate adjustments are subject to approval by the Provincial Price Control Bureau.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

Following the impairment on the intangible asset – service concession arrangement, its recoverable amount is equal to its carrying amount. Therefore, any adverse movement in a key assumption would lead to a further impairment. A sensitivity analysis on the discount rate and toll revenue has been performed by the Directors as follows.

Increase or decrease of the discount rate by 1%

	11.5%	12.5%	13.5%
Impairment loss (HK$)	187,494,000	303,345,000	397,169,000

Increase or decrease of the toll revenue by 5%

	Decrease 5%	Current estimate	Increase 5%
Impairment loss (HK$)	388,741,000	303,345,000	217,026,000

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INTERESTS IN SUBSIDIARIES

	The Company	
	2012	2011
	$'000	$'000
Unlisted shares, at cost	**513,388**	513,388
Less: impairment loss	**(390,696)**	(185,938)
	122,692	327,450

The impairment loss was caused by the loss making and impairment provision of intangible asset of one of its subsidiary, Hunan Daoyue Expressway Industry Co., Ltd.

Details of the subsidiaries at 31 December 2012 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	RMB600,950,000/ 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)

13 PREPAYMENTS AND OTHER RECEIVABLES

	The Group	
	2012	2011
	$'000	$'000
Prepayments	**11,091**	12,218
Other receivables	**805**	1,008
	11,896	13,226

14 CASH AT BANK AND ON HAND

(A) CASH AT BANK AND ON HAND COMPRISE:

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Cash and cash equivalents – Cash at bank and on hand	**13,176**	159,588	**827**	1,154
Restricted bank deposits for interest rate swap of maturity of more than three months	**8,633**	8,635	**–**	–
	21,809	168,223	**827**	1,154

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

14 CASH AT BANK AND ON HAND (continued)

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

	2012	2011
	$'000	$'000
Loss before taxation	**(369,420)**	(282,212)
Adjustments for:		
– Depreciation	**5,390**	543
– Amortisation	**28,857**	288
– Impairment loss of intangible asset	**303,345**	275,464
– Change in fair value of derivative financial instrument	**1,631**	335
– Finance costs	**94,488**	320
– Interest income	**(92)**	(342)
– Foreign exchange (gain)/loss	**(37)**	39
– Profit from construction work and project management services under service concession arrangement	**(725)**	(24,728)
Changes in working capital:		
Increase in prepayments and other receivables	**(3,633)**	(7,450)
(Decrease)/increase in accruals and other payables	**(14,596)**	126,556
Increase in amount due to related companies	**1,004**	836
Net cash generated from operating activities	**46,212**	89,649

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

15 DERIVATIVE FINANCIAL INSTRUMENT

	The Group	
	2012	2011
	$'000	$'000
Interest rate swap	**1,966**	335

At 31 December 2012 and 31 December 2011, the Group held an interest rate swap agreement with a bank to hedge the interest rate risk on its floating interest rate bank loan. Further details of the interest rate swap are set out in note 20(c) (i).

16 ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Construction payables	**132,931**	261,078	**–**	–
Advance received	**112,230**	129,518	**–**	–
Accruals	**14,496**	30,159	**3,342**	3,902
	259,657	420,755	**3,342**	3,902

Included in accruals and other payables as at 31 December 2012 are contract retention deposits payable to independent contractors of HK$74,945,000 (2011: HK$110,831,000), construction fees payables of HK$56,781,000 (2011: nil) and advance received of HK$112,230,000 (2011: HK$129,518,000). Subsequent to 31 December 2012, the Group has entered into agreements with certain contractors to extend the payment dates of a total amount of HK$74,945,000 to 2014. The advance received expected to be recognised as income after more than 1 year is HK$77,698,000 (2011: HK$112,249,000). All of the remaining accruals and other payables are expected to be settled within one year.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 BANK LOANS

	The Group	
	2012	2011
	$'000	$'000
Current liabilities		
Current portion of long-term secured bank loan	**12,333**	–
Bank loan repayable on demand	**589,245**	584,712
	601,578	584,712
Non-current liabilities		
Long-term secured bank loan	**735,047**	629,085
	1,336,625	1,213,797

At 31 December, the bank loans were repayable as follows:

	The Group	
	2012	2011
	$'000	$'000
Within 1 year	**601,578**	–
After 1 year but within 2 years	**24,666**	597,047
After 2 years but within 5 years	**147,996**	111,015
After 5 years	**562,385**	505,735
	1,336,625	1,213,797

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 BANK LOANS (continued)

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

	The Group	
	2012	2011
	$'000	$'000
Facility amount	**1,356,850**	1,356,850
Amounts utilised	**(1,347,501)**	(1,229,085)
Facility amount still available	**9,349**	127,765

The Group's rights to operate the Expressway and receive toll fees therefrom, have been pledged to secure the bank loan.

Among the bank loans due within one year, $589,245,000 falls due in November 2013 and is repayable on demand by the lender irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The bank loans of the Group are subject to certain financial covenants. The Group regularly monitors its compliance with these covenants, and adherence to the timetable of the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in note 20(b). As at 31 December 2012, none of the covenants relating to drawn down facilities had been breached (2011: nil).

In accordance with the accounting policy set out in note 1(s), there are no borrowing costs capitalised into intangible asset – service concession arrangement for the year ended 31 December 2012 (2011: $38,592,000 at a variable rate of 5.760 – 6.685% 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 AND LIABILITIES RECOGNISED:

The components of deferred tax assets/liabilities recognised in the consolidate statement of financial position and the movement during the year are as follows:

	Pre-operating expenses $'000	Unused tax losses $'000	Intangible assets – service concession arrangement $'000	Total $'000
Deferred tax arising from:				
At 1 January 2011	385	7	1,575	1,967
(Charged)/credited to profit or loss (note 6(a))	(393)	(7)	64,788	64,388
Exchange adjustment	8	–	(22)	(14)
At 31 December 2011	–	–	66,341	66,341
At 1 January 2012	–	–	66,341	66,341
Credited to profit or loss (note 6(a))	–	–	83,202	83,202
Exchange adjustment	–	–	13	13
At 31 December 2012	–	–	149,556	149,556

(B) DEFERRED TAX ASSETS NOT RECOGNISED:

In accordance with the accounting policy set out in note 1(o), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $47,543,000 (2011: $18,165,000) 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.

As at 31 December 2012, tax losses of HK$14,995,000 in Hong Kong do not expire under current Hong Kong tax legislation. Tax losses of HK$28,000, HK$7,203,000, and HK$25,317,000 of the PRC subsidiary, Daoyue, will expire in the years ending 31 December 2015, 2016, and 2017 respectively.

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:

Company	**Share capital** $'000	**Share premium** $'000	**Other reserves** $'000	**Accumulated losses** $'000	**Total** $'000
Balance at 1 January 2011	4,126	130,044	510,388	(18,638)	625,920
Changes in equity for 2011:					
Total comprehensive income for the year	–	–	–	(199,131)	(199,131)
Balance at 31 December 2011 and 1 January 2012	4,126	130,044	510,388	(217,769)	426,789
Changes in equity for 2012:					
Total comprehensive income for the year	–	–	–	(211,984)	(211,984)
Balance at 31 December 2012	4,126	130,044	510,388	(429,753)	214,805

(B) DIVIDENDS

No dividend 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

	2012		2011	
	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	**412,608,000**	**4,126**	412,608,000	4,126
Share placing and subscription	**–**	**–**	–	–
At 31 December	**412,608,000**	**4,126**	412,608,000	4,126

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.

(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.

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 (continued)

(ii) Other reserve

On 13 April 2009, the Company acquired 90% equity interest in Daoyue from Shenzhen Huayu Investment & Development (Group) Co., Ltd. The difference between the historical carrying value of the shares of Daoyue acquired and the acquisition consideration paid by the Company is recorded in "Other reserve".

In addition, pursuant to the Group's reorganisation before its initial public offering, the ultimate controlling shareholder of the Group assigned to the Company the receivable balances due from 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 also recorded in "Other reserve".

(iii) Exchange reserves

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 1(r).

(iv) Distributable reserve

At 31 December 2012, the aggregate amount of reserves available for distribution to equity shareholders of the Company was nil (2011: $nil). 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 services commensurately 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.

The Group monitors its capital structure on the basis of a debt-to-equity ratio. For this purpose, adjusted net debt is defined as total debts (which includes accruals and other payables, amounts due to related parties and bank loans). Equity comprises all components of equity.

The debt-to-equity ratio of the Group at 31 December 2012 and 2011 is as follows:

	Note	**2012** **$'000**	2011 $'000
Current liabilities:			
Accruals and other payables	16	**259,657**	420,755
Amount due to a related company	23(c)	**2,306**	1,300
Bank loans		**601,578**	584,712
		863,541	1,006,767
Non-current liabilities:			
Amount due to the controlling shareholder of the Company	23(c)	**66,357**	37,683
Bank loans		**735,047**	629,085
Total debts		**1,664,945**	1,673,535
Total equity		**226,003**	512,452
Debt-to-equity ratio		**737%**	327%

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, and interest rate 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

The Group's credit risk is primarily attributable to prepayments and other receivables, and cash at bank and on hand. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

As a result of the business nature of the Group, the Group has no significant concentration of credit risk arising from its customers.

(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 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)

For the term loan subject to repayment on demand clauses which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the contractual repayment schedule and, separately, the impact to the timing of the cash outflows if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

The Group

	Contractual undiscounted cash outflow						
	On demand $'000	Within 1 year $'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
2012							
Accruals and other payables	–	147,427	–	–	–	147,427	147,427
Amount due a related company	–	2,306	–	–	–	2,306	2,306
Term loan subject to repayment on demand clause: Scheduled repayments	–	617,812	–	–	–	617,812	589,245
Amount due to the controlling shareholder of the Company	–	–	–	66,357	–	66,357	66,357
Other bank loans	–	58,628	70,147	271,906	684,982	1,085,663	747,380
Interest rate swap (net settled)	–	1,357	–	–	–	1,357	1,966
	–	827,530	70,147	338,263	684,982	1,920,922	1,544,681
Adjustment to disclose cash flows on term loan based on lender's right to demand repayment	600,000	(617,812)	–	–	–	(17,812)	
	600,000	209,718	70,147	338,263	684,982	1,903,110	

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 (continued)

	Contractual undiscounted cash outflow						
	On demand $'000	Within 1 year $'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
2011							
Accruals and other payables	–	180,406	110,831	–	–	291,237	291,237
Amount due a related company	–	1,300	–	–	–	1,300	1,300
Term loan subject to repayment on demand clause: Scheduled repayments	–	37,740	620,095	–	–	657,835	584,712
Amount due to the controlling shareholder of the Company	–	–	–	37,683	–	37,683	37,683
Other bank loans	–	40,959	52,903	222,543	613,611	930,016	629,085
Interest rate swap (net settled)	–	1,800	1,445	–	–	3,245	355
	–	262,205	785,274	260,226	613,611	1,921,316	1,544,372
Adjustment to disclose cash flows on term loan based on lender's right to demand repayment	600,000	(39,540)	(621,540)	–	–	(61,080)	
	600,000	222,665	163,734	260,226	613,611	1,851,236	

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

	Contractual undiscounted cash outflow					
	On demand $'000	**Within 1 year $'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**	**Carrying Total $'000**
2012						
Accruals and other payables	**2,269**	**–**	**–**	**–**	**2,269**	**2,269**
Financial guarantees issued:						
Maximum amount guaranteed (note 22)	**1,347,380**	**–**	**–**	**–**	**1,347,380**	**–**

	Contractual undiscounted cash outflow					
	On demand $'000	Within 1 year $'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	Carrying Total $'000
2011						
Accruals and other payables	3,902	–	–	–	3,902	3,902
Financial guarantees issued:						
Maximum amount guaranteed (note 22)	1,229,082	–	–	–	1,229,082	–

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

The Group's interest rates risk arises primarily from cash at bank and bank 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. The Group hedges its debt obligations through the use of interest rate swaps. The Group's interest rate profile as monitored by management is set out in (ii) below:

(i) Hedging

An interest rate swap, denominated in Hong Kong dollars, has been entered into to achieve an appropriate mix of fixed and floating rate exposure consistent with the Group's policy. At 31 December 2012, the Group had an interest rate swap with a notional contract amount of $600,000,000 (2011: $600,000,000).

The swap matures in the next year matching the maturity of the related bank loan and has fixed swap rate of 0.68%. The net fair value of the swap entered into by the Group at 31 December 2012 was $1,966,000 (2011: $335,000). The amount is recognised as a derivative financial instrument in the consolidated statement of financial position and is accounted for at fair value through profit or loss.

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) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period, after taking into account the effect of the interest rate swap (see (i) above).

	The Group			
	2012		2011	
	Effective interest rate %	**Amount $'000**	Effective interest rate %	Amount $'000
Fixed rate instruments:				
Bank loan repayable on demand	**7.483**	**(589,245)**	7.483	(584,712)
		(589,245)		(584,712)
Variable rate instruments:				
Cash at bank	**0.102**	**21,217**	0.190	158,974
Long-term secured bank loan	**5.974**	**(747,380)**	6.345	(629,085)
		(726,163)		(470,111)
Total net borrowings		**(1,315,408)**		(1,054,823)
Net fixed rate borrowings as a percentage of total net borrowings		**44.8%**		55.4%

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) Interest rate profile (continued)

	The Company			
	2012		2011	
	Effective interest rate	**Amount**	Effective interest rate	Amount
	%	**$'000**	%	$'000
Variable rate instruments:				
Cash at bank	**0.0145**	**827**	0.0102	1,154

(iii) Sensitivity analysis

At 31 December 2012, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss for the year and accumulated losses by approximately $1,362,000 in response to the general increase/decrease in interest rates (2011: $1,175,278).

The sensitivity analysis above indicates the instantaneous change in the Group's loss for the year (and accumulated losses) that would arise assuming that the change in interest rates had occurred at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's loss for the year (and accumulated losses) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2011.

(D) 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)

(D) CURRENCY RISK (continued)

At 31 December 2012, the Group is exposed to currency risk primarily through one of the bank loans of Daoyue that is denominated in HKD, with carrying amount of $589,245,000 (2011: $584,712,000).

At 31 December 2012, assuming all other risk variables remained constant, a 1% strengthening/(weakening) of the RMB against HKD would have increase/(decrease) equity and net profit by the amount of $4,384,000 (2011: $4,385,000). Results of the analysis represent an aggregation of the instantaneous effects on Daoyue's profit after tax and equity measured in the its functional currency, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2011.

(E) FAIR VALUES

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(E) FAIR VALUES (continued)

	The Group	
	2012	2011
	$'000	$'000
	Level 2	Level 2
Derivative financial instrument:		
Interest rate swap	**1,966**	335

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 2012 and 2011 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 2012 and 2011.

21 COMMITMENTS

(A) CAPITAL COMMITMENTS OUTSTANDING AT 31 DECEMBER 2012 NOT PROVIDED FOR IN THE FINANCIAL STATEMENTS WERE AS FOLLOWS:

	The Group	
	2012	2011
	$'000	$'000
Contracted for	**–**	92,765

The capital commitments of 2011 represent the costs for the construction of the Expressway.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

21 COMMITMENTS (continued)

(B) OPERATING LEASES

Leases as lessee

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Within 1 year	**802**	804	**802**	802
After 1 year but within 5 years	**–**	875	**–**	875
	802	1,679	**802**	1,677

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.

Leases as lessor

The Group leases out its service zone and billboards under operating leases, with lease terms of 5 years and 3 years respectively. At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2012	2011
	$'000	$'000
Within 1 year	**1,085**	–
After 1 year but within 5 years	**46,131**	43,173
	47,216	43,173

During the year ended 31 December 2012, the Group recognised rental income of $16,248,000 and $311,000 in revenue (note 3) and other revenue (note 4) of the consolidated income statement respectively (2011: nil).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

22 CONTINGENT LIABILITIES

FINANCIAL GUARANTEES ISSUED

As at the end of the reporting period, the Company has issued the following guarantees:

(a) a single guarantee to a bank in respect of a bank loan granted to a wholly owned subsidiary which expires on 19 October 2013; and

(b) a single guarantee to a bank in respect of a banking facility granted to a wholly owned subsidiary which expires on 8 May 2027.

As at the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued is the total bank loans by the subsidiary of $1,347,380,000 (2011: $1,229,082,000).

The Company has not recognised any deferred income in respect of the guarantee as its fair value cannot be reliably measured using observable market data and its transaction price was nil.

23 MATERIAL RELATED PARTY TRANSACTIONS

(A) DURING THE YEAR ENDED 31 DECEMBER 2012, 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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

23 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Non recurring transactions				
Expense paid on behalf of the Group by a related company – Shenzhen Huayu Investment & Development (Group) Co., Ltd.	**1,004**	836	**–**	–
Advance from the controlling shareholder of the Company	**28,674**	37,683	**16,403**	12,114

(C) BALANCES WITH RELATED PARTIES

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

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Amount due to a related company – Shenzhen Huayu Investment & Development (Group) Co., Ltd.	**(2,306)**	(1,300)	**–**	–
Amount due to the controlling shareholder of the Company	**(66,357)**	(37,683)	**(28,517)**	(12,114)
	(68,663)	(38,983)	**(28,517)**	(12,114)

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

23 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(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 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2012	2011
	$'000	$'000
Short-term employee benefits	**9,490**	9,997

Total remuneration is included in "staff costs" (see note 5(b)).

(E) APPLICABILITY OF THE LISTING RULES RELATING TO CONNECTED TRANSACTIONS

The related party transactions in respect of note 23(b) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, however they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

24 IMMEDIATE AND ULTIMATE CONTROLLING COMPANY

At 31 December 2012, the directors consider the immediate parent and ultimate controlling party 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

(Expressed in Hong Kong dollars unless otherwise indicated)

25 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012 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
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
Annual Improvements to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

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.