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 2009

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Corporate Information

Board of Directors

Executive Directors

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

Independent Non-executive Directors

Sun Xiao Nian
Chu Kin Wang, Peleus
Hu Lie Ge

Board Committees

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Company Secretary

Sin Ka Man *HKICPA, FCCA*

Authorised Representatives

Chan Yeung Nam
Sin Ka Man

Registered Office

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

Headquarters in the PRC

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

Principal Place of Business in Hong Kong

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

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

AUDITORS

KPMG
Certified Public Accountants

Legal Advisers as to Hong Kong Law

Orrick, Herrington & Sutcliffe

Principal Bankers

China Merchants Bank
China Construction Bank Corporation

Compliance Officer

Mizuho Securities Asia Limited

Company Website

www.huayu.com.hk

Stock Code

1823

Financial Summary

For the year ended 31 December

RESULTS	**2009 HK$'000**	2008 HK$'000	2007 HK$'000	2006 HK&'000
Turnover	**205,538**	10,080	5,573	1,874
Loss before taxation	**(15,687)**	(3,221)	(834)	(791)
Income tax credit	**740**	831	168	271
Loss for the year	**(14,947)**	(2,390)	(666)	(520)
Attributable to:				
Equity shareholders of the Company	**(14,385)**	(2,140)	(588)	(465)
Minority interests	**(562)**	(250)	(78)	(55)
	(14,947)	(2,390)	(666)	(520)

As at 31 December

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

Chairman Statement

On behalf of the board of directors (the "Board") of Huayu Expressway Group Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009.

This year was a remarkable year in the history of the Group. The construction of the Sui-Yue Expressway (Hunan Section) was commenced during the year. Meanwhile, with the efforts of all the professional parties in the IPO projects, the shares of the Company was successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited on 23 December 2009. We have raised a net proceeds of about HK$115.54 million for the pre-operating and development costs of the Sui-Yue Expressway (Hunan Section) project.

For the year ended 31 December 2009, the Group recorded a turnover of approximately HK$205.54 million, increased by about 1,940% from approximately HK$10.08 million for the year ended 31 December 2008. Turnover of the Group represented revenue from construction work and project management under the Concession Agreement. As the Sui-Yue Expressway (Hunan Section) will be completed in 2011 and can only commence collecting tolls from 2012, the Group still incurred a loss for the year. For the year ended 31 December 2009, the Group had a loss of approximately HK$14.95 million while the loss for the year ended 31 December 2008 was approximately HK$2.39 million.

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

We believe our future prospect as the Sui-Yue Expressway (Hunan Section) is one of the expressway with high economical potential in the PRC. Our project is strategically located in Hunan Province, which is one of the high economic growth provinces in the PRC. Also, the Sui-Yue Expressway (Hunan Section) will be an integral part of the major artery between Hunan Province and Hubei Province. We believe that, once it is completed and open to traffic, the enormous economic potential of the currently relatively limited trading between the Wuhan-Jingzhou area in Hubei Province and the Yueyang area in Hunan Province will be realized, resulting in significant vehicle turnover for the Sui-Yue Expressway (Hunan Section).

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

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

Chairman Statement

We also believe that the experience of our Directors in successfully completing PRC toll-expressway projects, and the connections and reputation established by them within the PRC, will continue to lead to opportunities to participate in future projects. It is our plan to pursue opportunities which are consistent with its overall business strategies, and which we believe will generate a satisfactory return on investment.

In accordance with this strategy, we will pursue other infrastructure projects in the PRC whenever suitable opportunity arises. Apart from developing new infrastructure projects, we might also consider acquiring abandoned or half-developed infrastructure projects, as well as infrastructure projects which are already in operation, from other developers or the government if 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, 23 April 2010

Management Discussion and Analysis

The global economic environment has been substantially changed in the year 2009 due to the once-in-century financial crisis. With the decisive and effective measures taken by the PRC Government to promote the infrastructure and boost the domestic demands, China can maintain its high growth in the GDP. The Company can also benefited from those economic policies.

Financial Review

Turnover and cost of construction services

Turnover of the Group represented revenue from construction work and project management under the Concession Agreement and there was no real cash inflow realised/realisable during the construction phase. Thus the turnover recorded by the Group should not be interpreted as cash revenue. For the year ended 31 December 2009, the Group recorded a turnover of approximately HK$205.54 million, about 1,940% of the turnover for the year ended 31 December 2008 of approximately HK$10.08 million. With the commencement of the major construction work of the Sui-Yue Expressway (Hunan Section), the Group has injected more investment and efforts in the project. Up to 31 December 2009, total investment in the project was approximately HK$414.79 million.

Other revenue

The Group recorded other revenue which mainly represented interest income from bank deposits of approximately HK$586,000 for the year ended 31 December 2009 while the other revenue for the year ended 31 December 2008 was approximately HK$126,000. The increase in other revenue was mainly because of the increase in cash deposited in banks by the Group as a result of the increase in paid-up capital of the Company's PRC subsidiary.

Administrative expenses

Administrative expenses increased from approximately HK$3.57 million for the year ended 31 December 2008 by about 483% to approximately HK$20.80 million for the year ended 31 December 2009. This was mainly because the Group developed the Sui-Yue Expressway (Hunan Section) project at a more advance stage and it employed increasingly more resources for the project and our consultancy fees, office expenses, rent, etc increased substantially in 2009.

Income tax credit and loss for the year

As the Group made further progress in the Sui-Yue Expressway (Hunan Section) project, we also incurred more expenses. However, in 2009, the Group still has not commenced the toll road operation. Accordingly, our loss for the year ended 31 December 2009 increased from approximately HK$2.39 million for the year ended 31 December 2008 by about 526% to approximately HK$14.95 million. Also, due to a larger loss before taxation for the year ended 31 December 2009, the Group recorded deferred tax credit arising from the temporary differences from the intangible asset-service concession arrangement.

Management Discussion and Analysis

Liquidity and financial resources

During the year ended 31 December 2009, the Group financed its operations and capital expenditures by the capital injection by the shareholders of the Company and long-term secured bank loan. The capital contribution by the controlling shareholder before the Initial Placing and Public Offer was approximately HK$513.39 million while the net proceeds from the new shares issued at the Initial Placing and Public Offer was approximately HK$115.54 million. As at 31 December 2009, total bank loan drawn by the Group was about HK$340.83 million and the total cash and cash equivalents, including bank deposits and cash on hand was amounted to HK$544.25 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 future and the development demands for capital. As at 31 December 2009, total available banking facilities of the Group amounted to RMB810 million from China Merchants Bank, which is mainly for the construction cost of the Sui-Yue Expressway (Hunan Section), among of which the amount of outstanding long-term secured bank loan was HK$340.83 million (equivalent to RMB300 million). The ratio of outstanding long-term secured bank loan to equity holders' equity was 55.78% (2008: Nil).

At 31 December 2009, the long-term secured bank loan is repayable as follows:

	2009 **HK$'000**	2008 HK$'000
After 2 years but within 5 years	**34,083**	—
After 5 years	**306,747**	—
	340,830	—

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

Use of net proceeds from the initial placing and public offering

The shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on 23 December 2009 with net proceeds from the initial placing and public offer of approximately HK$115.54 million (after deducting issuing expenses). Up to 31 December 2009, all of the proceeds was placed in short-term deposit bank accounts and has not yet utilized.

The Group intends to continue to apply the net proceeds in the manner set out in the Prospectus.

Management Discussion and Analysis

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 2009, the Group did not enter into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group. The management will continue to monitor its foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

Pledge of asset

As at 31 December 2009, the banking facilities of RMB1.1 billion from China Merchants Bank was secured by the pledge of the toll collection right in relation to the Sui-Yue Expressway (Hunan Section), upon commencement of the toll road operation.

Capital commitments

Capital commitments outstanding at 31 December 2009 not provided for in the financial statements were as follows:

	2009 **HK$'000**	2008 HK$'000
Contracted for	**624,098**	636,005
Authorised but not contracted for	**890,423**	1,189,716

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

Business Review

Sui-Yue Expressway (Hunan Section)

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

The construction of the project was in a more advanced stage for the year ended 31 December 2009. As at 31 December 2009, total investment in the project was about HK$414.79 million (2008: HK$90.37 million).

Management Discussion and Analysis

Employees and emoluments

As at 31 December 2009, the Group employed a total of 46 (2008: 30) employees in the PRC and Hong Kong which included the management staff, engineers, technicians, etc. For the year ended 31 December 2009, the Group's total expenses on the remuneration of employees was approximately HK$6.89 million (2008: HK$0.15 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 up to 31 December 2009.

Prospects

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

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

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

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

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

Corporate Governance Report

The Company was a private company for most of the year under review as it was only listed on the Main Board of the Stock Exchange on 23 December 2009. Upon the listing of the Company, the Company has complied with the vast majority of the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules.

In accordance with the requirement of the Listing Rules, the Company has established an audit committee with defined terms of reference and appointed a chief financial controller to oversee the financial reporting procedures and internal control of the Group. The Company has also established a nomination committee and a remuneration committee with defined terms of reference.

Since the listing of the shares of the Company on the Main Board of the Stock Exchange on 23 December 2009, all code provisions set out in the Code were fulfilled by the Company except that, as the Company was listed on the Stock Exchange on 23 December 2009, no audit committee meeting of the Company has been held during the financial year ended 31 December 2009, and deviated from code provision C3.3(e)(i) of the Code. The first audit committee meeting of the Company was held on 21 April 2010, which was after the year under review. Going forward, the Company will convene audit committee meeting at least once a year in compliance with code provision C3.3(e)(i) of the Code.

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standards set out in the Model Code from the listing date on 23 December 2009 to 31 December 2009.

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 2009, the Board comprises eight executive directors and three independent non-executive directors. Biographical details of the directors are set out in the section headed "Directors and Senior Management" of this annual report.

Corporate Governance Report

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

	Board Meeting Note 1	Audit Committee Note 2	Remuneration Committee Note 2	Nomination Committee Note 2
Executive Directors				
Chan Yeung Nam	3/3	N/A	N/A	N/A
Mai Qing Quan	3/3	N/A	N/A	N/A
Chen Kai Shu	3/3	N/A	N/A	N/A
Fu Jie Pin	3/3	N/A	N/A	N/A
Chen Min Yong	3/3	N/A	N/A	N/A
Zhang Bo Qing	3/3	N/A	N/A	N/A
Yue Feng	3/3	N/A	N/A	N/A
Mao Hui	3/3	N/A	N/A	N/A
		N/A	N/A	N/A
Independent Non-executive Directors				
Sun Xiao Nian	3/3	N/A	N/A	N/A
Chu Kin Wang, Peleus	3/3	N/A	N/A	N/A
Hu Lie Ge	3/3	N/A	N/A	N/A

Note:

1. Number of meetings attended/Number of meetings held

2. Audit Committee, Remuneration Committee and Nomination Committee were established on 30 November 2009 and the Company was listed on the Stock Exchange on 23 December 2009. Therefore, no such meeting had been held for the year ended 31 December 2009.

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

The Roles of Chairman and the Chief Executive Officer

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

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

Corporate Governance Report

Appointments, Re-Election and Removal of Directors

Each of the Directors (including executive Directors and independent non-executive Directors) has entered into a service contract with the Company for an initial term of three years commencing from 23 December 2009, subject to termination in accordance with the provisions of the service contracts or by either party serving the other not less than three months' prior written notice.

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

Board Committees

As an integral part of good corporate governance practice, the Board established the following Board Committees to oversee particular aspects of the Group's affairs. Each of these committees comprises entirely independent non-executive Directors who have 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 30 November 2009 with written terms of reference in compliance with Rules 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises of three members, all are independent non-executive Directors of the Company, namely, Mr. Chu Kin Wang, Peleus, Mr. Hu Lie Ge and Mr. Sun Xiao Nian. Mr. Chu Kin Wang, Peleus is the Chairman of the Audit Committee.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2009, including the accounting principals and practice adopted by the Group.

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

Since the Audit Committee was only established on 30 November 2009, the Audit Committee did not hold any meeting during the year under review.

Corporate Governance Report

Remuneration Committee

The remuneration committee of the Company ("Remuneration Committee") was established on 30 November 2009 with written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules. The Remuneration Committee comprises of three members, namely Mr. Hu Lie Ge, Mr. Chu Kin Wan, Peleus and Mr. Chen Kai Shu. Mr. Hu Lie Ge is the chairman of the Remuneration Committee.

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

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

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

Since the Remuneration Committee was only established on 30 November 2009, the Remuneration Committee did not hold any meeting during the year under review.

Nomination Committee

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

The primary functions of the Nomination Committee include making recommendation to the Board on the selection of individuals nominated for directorship.

Since the Nomination Committee was only established on 30 November 2009, the Nomination committee did not hold any meeting during the year under review.

Directors' Responsibility for Financial Statements

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

Corporate Governance Report

Auditors' Remuneration

During the year ended 31 December 2009, the remuneration paid or payable to the Group's auditors, KPMG, in respect of the services provided are as follows:

	HK$'000
Audit services	
Initial public offering	2,600
Annual audit	1,100
Total	3,700

Internal Control

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

Communication with Shareholders

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

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

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

Directors and Senior Management

Executive Directors

Mr. Chan Yeung Nam (陳陽南), aged 54, is an executive directors and the Chairman of the Company. Mr. Chan is the founder of the Group and was appointed as executive directors in April 2009. He is responsible for the overall management, development and planning of the Group. He is also responsible for assessing and analyzing investment opportunities involving other infrastructure projects when they arise. Mr. Chan graduated from the Sun Yat-Sen University. He has more than 12 years of experience in the development, operation and management of highways.

Mr. Mai Qing Quan (麥慶泉), aged 60, is an executive directors and the Chief Executive Officer of the Company. He joined the Group in May 2009. Mr. Mai is responsible for the negotiation and communication with the relevant governmental bodies in the PRC. He is also responsible for overseeing the infrastructure projects of the Group. Mr. Mai graduated from Hunan Normal College. He has over 5 years of experience in investment, construction and operation of expressway projects in the PRC.

Mr. Chen Kai Shu (陳開樹), aged 48, joined the Company as an executive director in May 2009. Mr. Chen was responsible for road greening, soil and water preservation and environmental protection in the expressway projects of the Group. He graduated from Beijing Forestry College in forestry. He has over 16 years of experience in greening and environmental protection.

Mr. Fu Jie Pin (符捷頻), aged 42, 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 12 years of experience in development, operation and management of highways in the PRC.

Mr. Chen Min Yong (陳民勇), aged 40, 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. He graduated from 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 Changsha Communications Institute major in transportation and management in 2001. Mr. Chen has over 11 years of experience in operation and management of highway projects.

Mr. Zhang Bo Qing (張博慶), aged 45, joined the Company as an executive director in May 2009. Mr. Zhang is responsible for on-site management and project coordination in the highway projects of the Group. He graduated from a graduate training scheme major in bridges and tunnel engineering from South West Jiaotong University in 1993. Mr. Zhang is a senior civil engineer accredited by Guangdong Province Personnel Bureau and has over 9 years of experience in site management of road construction projects.

Mr. Yue Feng (岳峰), aged 66, joined the Company as an executive director in May 2009. Mr. Yue is responsible for liasing with the relevant bodies in relation to road design. He graduated from Liaoning College of Communications in vehicle techniques application and reparation. Mr. Yue is a senior engineer accredited by Shenzhen Transport Engineering Personnel High Level Committee of Professional and Technical Qualification. He was once the vice secretary level inspector of Shenzhen Municipal Transportation Bureau responsible for consultation for traffic and road planning, the head of Shenzhen Transportation Construction Engineering Expert Group and the president of Shenzhen Road Association.

Ms. Mao Hui (毛惠), aged 33, 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 Hunan College of Economics and Finance with a degree in bachelor of economics in financial accounting. She then obtained the master degree in management and accounting from Hunan University. Ms. Mao has over 10 years of experience in financial management.

Directors and Senior Management

Independent Non-executive Directors

Mr. Sun Xiao Nian（孫小年）, aged 45, joined the Company as an independent non-executive director in May 2009. He obtained his master degree in automobiles and transport from 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 Guangdong Province Personnel Bureau in 2003 and a registering consulting engineering 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 45, 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 the directors of Chinese People Holdings Company Limited, Bright Prosperous Holdings Limited and Eyang Holdings (Group) Limited of which they are listed in the Main Board of Hong Kong Stock Exchange.

Mr. Hu Lie Ge（胡列格）aged 56, joined the Company as an independent non-executive director in May 2009. He graduated from Changsha Communications Institute in Mathematical Mechanics and completed a graduate course in Probability Theory and Mathematics Statistics at Changsha Railway University, currently part of Central South University. Mr. Ge was once the Head of the College of Transportation and Communications in Changsha University of Science and Technology and is now a member of Hunan Province Committee for Facilitation of the Development of the Logistics Industry.

Senior Management

Mr. Gan Xian Hui（甘先會）aged 40, joined the Group as a chief contract budget controller in 2008. Mr. Gan is responsible for controlling contract budget and organization of invitations to tender. He graduated from Xian Institute of Metallurgy and Construction, currently known as Xian University of Architecture and Technology, with a bachelor degree in engineering majoring in industrial and civil architecture. Mr. Gan has over 10 years of experience in the management of construction projects.

Mr. Chen Jing An（陳景安）aged 61, 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 12 years of experience in the design and technical management of highways projects in the PRC.

Ms. Liu Dan Yi（劉丹宜）aged 49, 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. He has over 21 years experience in administration and human resources.

Report of the Directors

The Board presents this annual report together with the audited consolidated financial statements for the year ended 31 December 2009.

Registered office and principal place of business in Hong Kong

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

Principal activities

The principal activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note14 to the consolidated financial statements.

Major customers and suppliers

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

Financial statements

The loss of the Group for the year ended 31 December 2009 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 page 25 to 68.

Reserves

Details of movements in the reserve of the Company from the date of incorporation to 31 December 2009 are set out in note 23(a) to the consolidated financial statements.

Losses attributable to shareholders of HK$14,947,000 (2008: HK$2,390,000) 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 2009 (2008: HK$Nil).

Report of the Directors

Charitable donations

No charitable donations were made by the Group during the year ended 31 December 2009 (2008: Nil).

Fixed assets

Details of the movements in fixed assets during the year are set out in note 12 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 2009 are set out in note 23(b) to the consolidated financial statements. Shares were issued during the financial year upon incorporation, reorganization and the completion of the placing and public offering.

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 2009.

Pre-Emptive rights

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

Directors

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

Executive directors

Mr. Chan Yeung Nam	(appointed on 21 April 2009)
Mr. Mai Qing Quan	(appointed on 21 May 2009)
Mr. Chen Kai Shu	(appointed on 21 May 2009)
Mr. Fu Jie Pin	(appointed on 21 May 2009)
Mr. Chen Min Yong	(appointed on 21 May 2009)
Mr. Zhang Bo Qing	(appointed on 21 May 2009)
Mr. Yue Feng	(appointed on 21 May 2009)
Ms. Mao Hui	(appointed on 21 May 2009)

Independent non-executive directors

Mr. Sun Xiao Nian	(appointed on 21 May 2009)
Mr. Chu Kin Wang, Peleus	(appointed on 21 May 2009)
Mr. Hu Lie Ge	(appointed on 21 May 2009)

Report of the Directors

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

By virtue of Articles 84 and 85 of the Articles of Association of the Company, Mr. Chan Yeung Nam, Mr. Mai Qing Quan, Mr. Chen Kai Shu 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 on the Board 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 2009, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the directors of the Company (the "Model Code") contained in the Rules of Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") were as follows:

Name of director	Nature of interest	Number of shares (ordinary shares)	Percentage
Mr. Chan Yeung Nam (Note 1)	Interest in controlled corporation	300,000,000	75%

Note 1: Mr. Chan Yeung Nam is deemed to be interested in 300,000,000 shares of the Company held by Velocity International Limited by virtue of it being controlled by Mr. Chan Yeung Nam.

Apart from the forgoing, as at 31 December 2009, none of the directors or chief executive of the Company or any of their spouses or children under eighteen years of age had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

Report of the Directors

Share option scheme

The Company adopted a Share Option Scheme on 30 November 2009 for the purpose of motivating eligible persons to 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.

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

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

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

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2009, so far as it known to any directors 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 1)	300,000,000	75%

Note 1: 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 2009.

Report of the Directors

Directors' interests in contracts

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

Bank loan

Particulars of bank loan of the Group as at 31 December 2009 are set out in note 21 to the financial statements.

Financial summary

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

Retirement schemes

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

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

The Group's total contributions to retirement schemes charged to the income statement during the year ended 31 December 2009 amounted to HK$612,000 (2008: HK$25,000).

Confirmation of independence

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

Report of the Directors

Code of Corporate Governance Practises

The Company was a private company for most of the year ended 31 December 2009 as it was only listed on the Main Board of the Stock Exchange on 23 December 2009. Upon the listing of the Company, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules except that, as the Company was only listed on the Stock Exchange on 23 December 2009, no audit committee meeting of the Company has been held during the year ended 31 December 2009, and deviated from the provision C3.3(e)(i) of the Code. The first audit committee meeting of the Company was held on 21 April 2010, which was after the year under review. Going forward, the Company will convene audit committee at least once a year in compliance with the respective code provision in the Code.

Directors’ securities transactions

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 Decemebr 2009.

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 2009.

Auditors

KMPG 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, 23 April 2010

Independent Auditor's Report

KPMG

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

We have audited the consolidated financial statements of Huayu Expressway Group Limited (the "Company") set out on pages 25 to 68, which comprise the consolidated and Company balance sheets as at 31 December 2009, and 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 notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
23 April 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Turnover	3	**205,538**	10,080
Cost of construction services		**(201,016)**	(9,858)
Gross Profit		**4,522**	222
Other revenue	4	**586**	126
Administrative expenses		**(20,795)**	(3,569)
Loss before taxation	5	**(15,687)**	(3,221)
Income tax credit	6(a)	**740**	831
Loss for the year		**(14,947)**	(2,390)
Attributable to:			
Equity shareholders of the Company		**(14,385)**	(2,140)
Minority interests		**(562)**	(250)
Loss for the year		**(14,947)**	(2,390)
Loss per share			
Basic and Diluted (HK cents)	11	**(4.76)**	(0.71)

The notes on pages 31 to 68 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Loss for the year	**(14,947)**	(2,390)
Other comprehensive income for the year		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong, net of nil tax	**232**	3,982
Total comprehensive income for the year	**(14,715)**	1,592
Attributable to:		
Equity shareholders of the Company	**(14,177)**	1,445
Minority interests	**(538)**	147
Total comprehensive income for the year	**(14,715)**	1,592

The notes on pages 31 to 68 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	12	1,716	1,968
Intangible asset – service concession arrangement	13	414,793	90,373
Prepayments	15	77,846	29,002
Deferred tax assets	20	2,086	1,341
		496,441	122,684
Current assets			
Prepayments and other receivables	16	597	385
Amount due from a related company	17	–	10,999
Cash and cash equivalents	18(a)	544,249	3,886
		544,846	15,270
Current liabilities			
Accruals and other payables	19	58,056	27,949
Amount due to a related company	17	536	–
Amount due to controlling shareholder of the Company	17	–	349
		58,592	28,298
Net current assets/(liabilities)		486,254	(13,028)
Total assets less current liabilities		982,695	109,656
Non-current liabilities			
Long-term secured bank loan	21	340,830	–
NET ASSETS		641,865	109,656
CAPITAL AND RESERVES	23		
Share Capital		4,000	–
Reserves		606,999	98,716
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		610,999	98,716
Minority interests		30,866	10,940
TOTAL EQUITY		641,865	109,656

Approved and authorised for issue by the board of directors on 23 April 2010.

Chan Yeung Nam
Director

Mai Qing Quan
Director

The notes on pages 31 to 68 form part of these financial statements.

Balance Sheet

At 31 December 2009

	Note	2009 HK$'000
Non-current assets		
Interests in subsidiaries	14	**513,388**
Current assets		
Prepayments and other receivables	16	**150**
Cash and cash equivalents	18(a)	**120,560**
		120,710
Current liabilities		
Amounts due to subsidiaries	22	**8,559**
Accruals and other payables		**6,606**
		15,165
Net current assets		**105,545**
TOTAL ASSETS		**618,933**
CAPITAL AND RESERVES		
Share capital	23(b)	**4,000**
Reserves	23(a)	**614,933**
TOTAL EQUITY		**618,933**

Approved and authorised for issue by the board of directors on 23 April 2010.

Chan Yeung Nam
Director

Mai Qing Quan
Director

The notes on pages 31 to 68 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

		Attributable to equity shareholders of the Company							
	Note	Share capital HK$'000 (Note 23(b))	Share premium HK$'000 (Note 23(d)(i))	Other reserve HK$'000 (Note 23(d)(ii))	Exchange reserve HK$'000 (Note 23(d)(iii))	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Balance at 1 January 2008		–	–	44,699	3,471	(1,063)	47,107	5,219	52,326
Changes in equity for 2008:									
Capital injection	23(d)(ii)	–	–	50,164	–	–	50,164	5,574	55,738
Total comprehensive income for the year		–	–	–	3,585	(2,140)	1,445	147	1,592
Balance at 31 December 2008 and 1 January 2009		**–**	**–**	**94,863**	**7,056**	**(3,203)**	**98,716**	**10,940**	**109,656**
Changes in equity for 2009:									
Capital injection	23(d)(ii)	**–**	**–**	**184,178**	**–**	**–**	**184,178**	**20,464**	**204,642**
Arising on reorganisation		**3,000**	**–**	**223,743**	**–**	**–**	**226,743**	**–**	**226,743**
Shares issued under placing and public offering, net of issuance costs		**1,000**	**114,539**	**–**	**–**	**–**	**115,539**	**–**	**115,539**
Total comprehensive income for the year		**–**	**–**	**–**	**208**	**(14,385)**	**(14,177)**	**(538)**	**(14,715)**
Balance at 31 December 2009		**4,000**	**114,539**	**502,784**	**7,264**	**(17,588)**	**610,999**	**30,866**	**641,865**

The notes on pages 31 to 68 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Net cash (used in)/generated from operating activities	18(b)	**(8,711)**	26,489
Investing activities			
Payment for the purchase of property, plant and equipment	12	**(149)**	(1,841)
Payment for intangible asset		**(301,218)**	(81,057)
Increase in prepayments	15	**(48,844)**	(29,002)
Interest received		**526**	98
Net cash used in investing activities		**(349,685)**	(111,802)
Financing activities			
Decrease in amount due from a related company		**10,999**	31,889
Proceeds from long-term secured bank loan		**340,830**	–
Arising from reorganisation		**226,743**	–
Capital contribution by controlling shareholder of the Company		**184,178**	50,164
Capital contribution by minority interests		**20,464**	5,574
Proceed from issue of share capital, net of issuing expenses		**115,539**	–
Net cash generated from financing activities		**898,753**	87,627
Net increase in cash and cash equivalents		**540,357**	2,314
Cash and cash equivalents at beginning of the year		**3,886**	1,486
Effect of foreign exchange rate changes		**6**	86
Cash and cash equivalents at end of the year	18(a)	**544,249**	3,886

The notes on pages 31 to 68 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 General Information

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

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

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

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

In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole. As the Company was incorporated on 21 April 2009, no comparative figures are presented in respect of the Company's balance sheet.

2 Significant Accounting Policies

(a) Statement of Compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company of which the Group and the Company have already adopted, except for any new standards or interpretations that are not yet effective for the year ended 31 December 2009. The revised and new accounting standards and interpretations issued but not yet effective for the year ended 31 December 2009 are set out in note 29.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Significant Accounting Policies (Continued)

(b) Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries.

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

The preparation of financial statements in conformity which 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 period.

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 28.

(c) Subsidiaries and Minority 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 included in 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 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.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, 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. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority 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 minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(g)).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Significant Accounting Policies (Continued)

(d) Property, Plant and Equipment

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

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

– Motor vehicles	5 years
– Furniture and fixtures	5 years

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

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

(e) Intangible Asset – Service Concession Arrangement

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

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. The concession grantor has not provided any contractual guarantee in respect of the amounts of construction costs incurred to be recoverable. Intangible asset received as consideration for providing construction work and project management services in a service concession arrangement are measured at fair value upon initial recognition. Subsequent to initial recognition the intangible asset is measured at cost less accumulated amortisation and any impairment losses (see note 2(g)).

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

2 Significant Accounting Policies (Continued)

(e) Intangible Asset – Service Concession Arrangement (Continued)

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

Both the period and method of amortisation are reviewed annually.

(f) Operating Lease Charges

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

(g) Impairment of Assets

(i) Impairment of Receivables

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

Impairment losses are reversed if in a subsequent period the amount of the impairment loss decreases.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Significant Accounting Policies (Continued)

(g) Impairment of Assets (Continued)

(ii) Impairment of Other Assets

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

- property, plant and equipment;
- investment in subsidiary;
- intangible asset – service concession arrangement; and
- non-current prepayments.

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Significant Accounting Policies (Continued)

(h) Receivables

Receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(g)).

(i) Interest-Bearing Borrowings

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

(j) Payables

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

(k) Cash and Cash Equivalents

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

(l) Employee Benefits

(i) 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) Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Significant Accounting Policies (Continued)

(m) Income Tax

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

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

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from differences which arose on initial recognition of assets and liabilities, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Significant Accounting Policies (Continued)

(m) Income Tax(Continued)

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

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

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

  - the same taxable entity; or

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

(n) Provisions and Contingent Liabilities

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Significant Accounting Policies (Continued)

(o) Revenue Recognition

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

(i) Revenue from Construction Work and Project Management Services Under the Service Concession Arrangement

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

(ii) Interest Income

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

(p) Translation of Foreign Currencies

For the purpose of presenting the financial statements, the Group adopted Hong Kong dollars ("HKD") as its presentation currency. The functional currencies of the Company and the subsidiaries incorporated in Hong Kong or BVI are HKD and the functional currency of the subsidiary established in the PRC is Renminbi ("RMB").

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

The results of the foreign operation are translated into the presentation currency of the Group at the exchange rates approximating the foreign exchange rates ruling at the dates of the transaction. Balance sheet items are translated into the presentation currency of the Group at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Significant Accounting Policies (Continued)

(q) Borrowing Costs

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

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

(r) Related Parties

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

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

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

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Significant Accounting Policies (Continued)

(s) Segment Reporting

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

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

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

3 Turnover

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

4 Other Revenue

	2009 $'000	2008 $'000
Interest income from bank deposits	526	98
Other	60	28
	586	126

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:

		2009 $'000	2008 $'000
(a)	Staff costs:		
	Salaries, wages and other benefits	**6,279**	126
	Contributions to defined contribution retirement plans	**612**	25
		6,891	151

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

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

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

		2009 $'000	2008 $'000
(b)	Other items:		
	Auditors' remuneration	**1,117**	9
	Consultancy fee	**57**	132
	Depreciation	**403**	146
	Operating lease charges in respect of rental of office premises	**861**	358

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:

	2009 $'000	2008 $'000
Deferred tax		
Origination and reversal of temporary differences (note 20)	**(740)**	(831)

(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 2009 and 2008.

(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% (2008: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the Group did not have assessable profits subject to PRC corporate income tax during the years ended 31 December 2009 and 2008.

(b) Reconciliation Between Tax Credit and Accounting Loss at Applicable Tax Rates:

	2009 $'000	2008 $'000
Loss before taxation	**(15,687)**	(3,221)
Notional tax on loss before taxation, calculated at the rates applicable to losses in the tax jurisdictions concerned	**(1,190)**	(815)
Tax effect on temporary differences not recognised	**451**	20
Tax effect on non-taxable income	**(1)**	–
Others	**–**	(36)
Income tax credit	**(740)**	(831)

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 2009

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

7 Directors' Remuneration (Continued)

Year ended 31 December 2008

	Fees	Basic salaries, allowances and other benefits in kind	Contributions to retirement benefit scheme	Discretionary bonuses	Total
	$'000	$'000	$'000	$'000	$'000
Executive directors					
Mr Chan Yeung Nam	–	–	–	–	–
Mr Mai Qing Quan	–	–	–	–	–
Mr Chen Kai Shu	–	–	–	–	–
Mr Fu Jie Pin	–	–	–	–	–
Mr Chen Min Yong	–	–	–	–	–
Mr Zhang Bo Qing	–	–	–	–	–
Mr Yue Feng	–	–	–	–	–
Ms Mao Hui	–	18	–	–	18
Independent non-executive directors					
Mr Sun Xiao Nian	–	–	–	–	–
Mr Chu Kin Wang, Peleus	–	–	–	–	–
Mr Hu Lie Ge	–	–	–	–	–
Total	–	18	–	–	18

Except for Mr. Chan Yeung Nam who was appointed as an executive director on 21 April 2009, all the other executive directors and independent non-executive directors were appointed on 21 May 2009.

During the year, no amount was paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

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, three (2008: none) were directors of the Company for the year ended 31 December 2009 whose remuneration is disclosed in note 7 above.

The aggregate of the emoluments in respect of the remaining two (2008: five) individuals are as follows:

	2009 **$'000**	2008 $'000
Salaries and other emoluments	**1,481**	60
Contributions to retirement benefit scheme	**16**	9
Discretionary bonuses	**140**	–
	1,637	69

The emoluments of the two (2008: five) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2009	2008
$Nil to $1,000,000	**2**	5

9 Dividends

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

10 Loss attributable to ordinary equity shareholders of the Company

The consolidated loss for the year attributable to ordinary equity shareholders of the Company includes a loss of $9,994,000 which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

11 Loss Per Share

(a) Loss Per Share

The calculation of loss per share is based on the consolidated loss attributable to ordinary equity shareholders of the Company of HK$14,385,000 and the weighted average number of 302,466,000 shares in issue during the year, calculated as follows:

	2009 $'000
Issuance of shares upon incorporation (note 23(b)(i))	–
Issuance of shares upon Reorganisation (note 23(b)(iii))	300,000
Issuance of shares for placing and public offering on 23 December 2009 (note 23(b)(iv))	2,466
	302,466

The calculation of loss per share for the year ended 31 December 2008 is based on the consolidated loss attributable to ordinary equity shareholders of the Company of HK$2,140,000 and 300,000,000 shares in issue (as if the shares were outstanding throughout 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)

12 Property, Plant and Equipment

	The Group		
	Motor vehicles $'000	Furniture and fixtures $'000	Total $'000
Cost:			
At 1 January 2008	216	67	283
Additions	1,660	181	1,841
Exchange adjustments	28	5	33
At 31 December 2008	1,904	253	2,157
At 1 January 2009	**1,904**	**253**	**2,157**
Additions	**122**	**27**	**149**
Exchange adjustments	**3**	**–**	**3**
At 31 December 2009	**2,029**	**280**	**2,309**
Accumulated depreciation:			
At 1 January 2008	26	13	39
Charge for the year	115	31	146
Exchange adjustments	3	1	4
At 31 December 2008	144	45	189
At 1 January 2009	**144**	**45**	**189**
Charge for the year	**355**	**48**	**403**
Exchange adjustments	**1**	**–**	**1**
At 31 December 2009	**500**	**93**	**593**
Net book value:			
At 31 December 2009	**1,529**	**187**	**1,716**
At 31 December 2008	1,760	208	1,968

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

13 Intangible Asset – Service Concession Arrangement

	The Group	
	2009	2008
	$'000	$'000
Cost:		
At 1 January	**90,373**	7,858
Additions	**323,739**	81,279
Exchange adjustments	**681**	1,236
At 31 December	**414,793**	90,373

On 23 October, 2004, Shenzhen Huayu Investment & Development (Group) Co. Ltd entered into a concession agreement "Initial Concession Agreement" with the Hunan Transportation Department, pursuant to which Shenzhen Huayu Investment & Development (Group) Co. Ltd was granted the exclusive right to construct, operate and manage the Hunan section of the Suizhou-Yueyang Expressway from Darenji town in Hunan Province to Kunshan, Yueyang city in Hunan Province ("Sui-Yue Expressway (Hunan Section)") and receive toll fees from vehicles using the Sui-Yue Expressway (Hunan Section) for an operating period of 25 years (excluding construction period).

The Initial Concession Agreement provides that Shenzhen Huayu Investment & Development (Group) Co. Ltd shall establish a project company and that such project company has the same right and obligations of Shenzhen Huayu Investment & Development (Group) Co. Ltd under the Initial Concession Agreement. Hunan Daoyue Expressway Industry Co., Ltd ("Daoyue") was established as the project company on 22 December 2006.

On 24 November 2009, the Initial Concession Agreement was terminated and replaced by the Concession Agreement entered into between Daoyue and the Hunan Transportation Department. Pursuant to the Concession Agreement, Daoyue was granted the exclusive right to construct, operate and manage the Sui-Yue Expressway (Hunan Section) and the Concession Period was extended to 27 years (excluding construction period).

This service concession arrangement does not contain a renewal option. At the end of the operating period all assets shall be transferred to the Hunan government authorities.

During the year, the Group recorded revenue of approximately $205,538,000 (2008: $10,080,000), representing the fair value of the construction work 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 2(e), the Group recognised land collection costs of $118,201,000 (2008: $71,199,000) during the year as intangible asset – service concession arrangement.

In accordance with the accounting policy set out in note 2(e), no amortisation is recognised in profit or loss as Sui-Yue Expressway (Hunan Section) is not available for use during the years ended 31 December 2008 and 2009.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

14 Interests in Subsidiaries

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

Details of the subsidiaries at 31 December 2009 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	RMB280,190,000/ 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.

15 Prepayments

As at 31 December 2009, the Group had made prepayments of $77,846,000 (2008: $29,002,000) to independent sub-contractors for the construction of Sui-Yue Expressway (Hunan Section).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

16 Prepayments and Other Receivables

All of the prepayments and other receivables are expected to be recovered within one year.

17 Amounts Due from/(to) a Related Company and Controlling Shareholder of the Company

(i) The amount due from a related company represented advance to a related company and cash settlement received on behalf of the Company by another related company. The balance was unsecured, interest-free and recoverable on demand.

(ii) The amount due to the controlling shareholder of the Company represented operating expenses paid on behalf of the Group. The balance was unsecured, interest-free and repayable on demand.

18 Cash and Cash Equivalents

(a) Cash and Cash Equivalents Comprise:

	The Group		The Company
	2009	2008	**2009**
	$'000	$'000	**$'000**
Deposits with bank	**205,001**	–	**–**
Cash at bank and in hand	**339,248**	3,886	**120,560**
Cash and cash equivalents in the balance sheet and consolidated cash flow statement	**544,249**	3,886	**120,560**

As at 31 December 2009, cash in hand and cash placed with banks in the PRC included in the cash and cash equivalents above amounted to RMB147,069,654 (2008: RMB3,419,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Cash and Cash Equivalents (Continued)

(b) Reconciliation of Loss Before Taxation to Cash (Used in)/Generated from Operating Activities:

	2009 $'000	2008 $'000
Loss before taxation	**(15,687)**	(3,221)
Adjustments for:		
– Depreciation	**403**	146
– Interest income	**(526)**	(98)
– Foreign exchange (gain)/loss	**(464)**	2,593
– Profit from construction work and project management services under service concession arrangement	**(4,522)**	(222)
Changes in working capital:		
(Increase)/decrease in prepayments and other receivables	**(212)**	5,684
Increase in accruals and other payables	**12,110**	27,936
Increase/(decrease) in amount due to a related company	**536**	(6,658)
(Decrease)/increase in amount due to controlling shareholder of the Company	**(349)**	329
Net cash (used in)/generated from operating activities	**(8,711)**	26,489

19 Accruals and Other Payables

Included in accruals and other payables as at 31 December 2009 are contract guarantee deposits and contract retention deposits to independent contractors of HK$30,021,000 and HK$17,079,000 (2008: HK$27,895,000 and Nil) respectively which are expected to be settled after more than one year. 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)

20 Income Tax in the Consolidated Balance Sheet

(a) Deferred tax assets recognised:

	Temporary differences on intangible asset-service concession arrangement $'000
Deferred tax arising from:	
At 1 January 2008	472
Credited to profit or loss (note 6(a))	831
Exchange adjustment	38
At 31 December 2008	1,341
At 1 January 2009	1,341
Credited to profit or loss (note 6(a))	740
Exchange adjustment	5
At 31 December 2009	2,086

(b) Deferred Tax Assets Not Recognised:

In accordance with the accounting policy set out in note 2(m), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $10,354,000 (2008: $129,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

21 Long-Term Secured Bank Loan

At 31 December 2009, the long-term secured bank loan is repayable as follows:

	The Group	
	2009	2008
	$'000	$'000
After 2 years but within 5 years	**34,083**	–
After 5 years	**306,747**	–
	340,830	–

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

	The Group	
	2009	2008
	$'000	$'000
Facility amount available	**908,880**	–
Amounts utilised	**340,830**	–

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

The bank loan of the Group is subject to certain financial covenants. According to the agreement, the Group's PRC subsidiary, Daoyue is required to invest not less than 35% of the total investment in Sui-Yue Expressway (Hunan Section) and maintain cash on hand at 130% of the annual loan and interest repayment and obtain prior approval from the bank, before declaring any cash dividend or bonus during the repayment years from 2013 to 2027. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 24(b).

In accordance with the accounting policy set out in note 2(q), the borrowing costs for the year ended 31 December 2009 of $9,684,000 (2008: nil) have been capitalised into intangible asset – service concession arrangement at a variable rate of 5.346% (2008: n/a) per annum.

22 Amounts Due to Subsidiaries

The amounts due to subsidiaries represented operating expenses paid by these subsidiaries on behalf of the company. The balances were unsecured, interest-free and recoverable on demand.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Capital and Reserves

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 date of incorporation and the end of the year are set out below:

(a) The Company

	Share premium $'000	Other reserves $'000	Accumulated loss $'000	Total $'000
At date of incorporation	–	–	–	–
Arising from Reorganisation (note 23(d)(ii))	–	510,388	–	510,388
Shares issued under placing and public offering, net of issuance costs (note 23(d)(i))	114,539	–	–	114,539
Total comprehensive income for the period	–	–	(9,994)	(9,994)
At 31 December 2009	114,539	510,388	(9,994)	614,933

(b) Share Capital

	The Company 2009 Number of shares	Amount $'000
Authorised:		
Ordinary shares of $0.01 each at date of incorporation	**38,000,000**	**380**
Increase during the period (note (ii))	**9,962,000,000**	**99,620**
At 31 December 2009	**10,000,000,000**	**100,000**
Ordinary shares, issued and fully paid:		
Shares issued upon incorporation (note (i))	**1**	**–**
Issuance of new shares on Reorganisation (note (iii))	**299,999,999**	**2,999**
Issuance of shares for placing and public offering (note (iv))	**100,000,000**	**1,000**
At 31 December 2009	**400,000,000**	**4,000**

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Capital and Reserves (Continued)

(b) Share Capital (Continued)

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

Notes:

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

(ii) At the shareholders' meeting held on 30 November 2009, the Company's authorised share capital was increased from $380,000 to $100,000,000 by the creation of an additional 9,962,000,000 ordinary shares of $0.01 each, ranking pari passu with the existing ordinary shares of the Company in all aspects.

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

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

(c)

The companies comprising the Group were combined as if the Group existed on 1 January 2008. Share capital as at 31 December 2008 represented the capital of Top Talent which was then the holding company of the companies now comprising the Group.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Capital and Reserves (Continued)

(d) Reserves

(i) *Share Premium*

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

(ii) *Other reserve*

On 16 May 2008, Daoyue increased its registered and fully paid capital by RMB50,000,000. The amount is recorded in "Other reserve".

On 7 January 2009, Daoyue further increased its registered capital by RMB100,000,000.

On 13 April 2009, Good Sign 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 Good Sign is recorded in "Other reserve".

On 30 November 2009, the Company issued 299,999,999 ordinary shares of $0.01 each to the shareholder of Top Talent to acquire the 100% equity interest in Top Talent. Pursuant to this reorganisation, the Company became the holding company of all the companies now comprising the Group.

On 7 December 2009, the ultimate controlling shareholder of the Group assigned the receivable balances due from the group companies amounted to $513,388,000 to the Company. The difference between the assigned receivable balances over the nominal value of the shares issued by the Company in exchange thereof was recorded in "Other reserve".

(iii) *Exchange reserve*

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

(iv) *Distributable reserve*

At 31 December 2009, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $104,545,000. The long-term secured bank loan of the Group is subject to certain financial 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)

23 Capital and Reserves (Continued)

(e) Capital management

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

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

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

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

The debt-to-equity ratio of the Group at 31 December 2009 and 2008 is as follows:

	Note	**2009** **$'000**	2008 $'000
Current liabilities:			
Accruals and other payables	19	**58,056**	27,949
Amount due to a related company	17	**536**	–
Amount due to controlling shareholder of the Company	17	**–**	349
		58,592	28,298
Non-current liabilities:			
Long-term secured bank loan	21	**340,830**	–
Total debt		**399,422**	28,298
Total equity		**641,865**	109,656
Debt-to-equity ratio		**62%**	26%

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 Financial Risk Management and Fair Values

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

(a) Credit Risk

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

(i) Prepayments and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each sub-contractor for expressway construction. Individual credit evaluations are performed on all sub-contractors. These evaluations focus on the sub-contractor's past history of construction work performance and current ability to fulfil the contract, and take into account information specific to the sub-contractor as well as pertaining to the economic environment in which the sub-contractor operates. The Group does not collect collateral in respect of the prepayments and other receivables. At 31 December 2009, contract guarantee deposits of $30,021,000 and contract retention deposits of $17,079,000 recognised in accruals and other payables (2008: $27,895,000 and Nil) were received from independent sub-contractors. The Group also regularly monitors the construction progress.

(ii) Deposits with bank

The Group limits its exposure to credit risk by placing deposits with financial institutions with sound credit rating. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity Risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands subject to approval by the Company's management when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the balance sheet date 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 balance sheet date) 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)

24 Financial Risk Management and Fair Values (Continued)

(b) Liquidity Risk (Continued)

The Group

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

2008	Contractual undiscounted cash outflow					
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Total $'000	Balance sheet carrying amount $'000
Accruals and other payables	54	–	27,895	–	27,949	27,949
Amount due to the controlling shareholder of the Company	349	–	–	–	349	349
Amount due to a related company	–	–	–	–	–	–
Long-term secured bank loan	–	–	–	–	–	–
	403	–	27,895	–	28,298	28,298

The Company

2009	**Within 1 year or on demand** $'000	**Total** $'000	**Balance sheet Carrying Amount** $'000
Accruals and other payables	6,606	6,606	6,606
	6,606	6,606	6,606

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 Financial Risk Management and Fair Values (Continued)

(c) Interest Rate Risk

(i) Interest Rate Profile

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

	The Group				The Company	
	2009		2008		2009	
	Effective interest rate %	Amount $'000	Effective interest rate %	Amount $'000	Effective interest rate %	Amount $'000
Variable rate instruments:						
Cash at bank	0.190	544,134	0.32	3,793	0.0007	120,560
Long-term secured bank loan	5.346	(340,830)	–	–	–	–
		203,304		3,793		120,560

(ii) Sensitivity Analysis

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

At 31 December 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss for the year and accumulated losses by approximately $5,441,340 (2008: $38,000).

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 Financial Risk Management and Fair Values (Continued)

(d) Business Risk

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

(e) Foreign Currency Risk

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

(f) Fair Values

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

As stated in note 17, the amount due from/(to) related company and controlling shareholder of the Company as at 31 December 2008 and 2009 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 2008 and 2009.

Revenue from construction work and project management services under the service concession arrangement is measured at the fair value of the consideration received or receivable. The respective fair value is estimated by reference to the costs of providing the service under the concession agreement plus an estimated profit margin.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

25 Commitments

(a) Operating Lease Commitments

At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company
	2009	2008	**2009**
	$'000	$'000	**$'000**
Within 1 year	**800**	779	**676**
After 1 year but within 5 years	**145**	546	**145**
	945	1,325	**821**

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

(b) Capital Commitments

Capital commitments outstanding at 31 December 2009 not provided for in the consolidated financial statements were as follows:

	The Group	
	2009	2008
	$'000	$'000
Contracted for	**624,098**	636,005
Authorised but not contracted for	**890,423**	1,189,716

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

Notes to the Financial Statements

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26 Material Related Party Transactions

In addition to the related party information disclosed in note 17, the Group entered into the following material related party transactions.

(a) During the year ended 31 December 2009, 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.* 深圳華昱投資開發(集團)股份有限公司 ("Shenzhen Huayu")	Under the control of the controlling shareholder of the Company
Shenzhen Yong An Ran Engineering and Construction Co. Ltd.* 深圳市永安然工程建設公司 ("Shenzhen Yong An Ran")	Under the control of the controlling shareholder of the Company

* The English translation of the company name is for reference only. The official names of these companies are in Chinese.

(b) Particulars of Significant Transactions Between the Group and the Above Related Parties During the year are as Follows:

Non recurring transaction	**2009 $'000**	2008 $'000
Short term advances to related companies:		
– Shenzhen Yong An Ran	**–**	44,936
– Shenzhen Huayu	**67,708**	–
Settlement of short term advances by Shenzhen Yong An Ran received by a related company on behalf of the Group:		
– Shenzhen Huayu	**–**	79,526
Short term advance from the controlling shareholder	**–**	349
Expenses paid by a related company on behalf of the Group	**536**	–
Assigned receivable balance to the Company by the controllling sharheolder of the Company (see note 23(d)(ii))	**513,388**	–

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

26 Material Related Party Transactions (Continued)

(c) Balances with Related Parties

As at the balance sheet dates, the Group had the following balances with related parties:

	2009 **$'000**	2008 $'000
Amount due from/(to) a related company – Shenzhen Huayu	**(536)**	10,999
Amount due to the controlling shareholder of the Company	**–**	349

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

(d) Key Management Personnel Remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2009 **$'000**	2008 $'000
Short-term employee benefits	**2,801**	18

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

27 Ultimate Controlling Company

The directors consider the ultimate controlling company of the Company as at 31 December 2009 to be Velocity International Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

28 Significant Accounting Estimates and Judgements

Key Sources of Estimation Uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(a) Impairment

If circumstances indicate that the carrying amount of property, plant and equipment and intangible asset may not be recoverable, these assets may be considered "impaired" and an impairment loss may be recognised in profit or loss. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, the expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of future toll revenue and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of toll revenue and the amount of operating costs, and discount rate.

(b) Depreciation and Amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives after taking into account the estimated residual value. Intangible asset – service concession arrangement are amortised on a straight-line basis over the concession period. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense and amortisation charge to be recorded during any reporting period. The useful lives are based on the industry practice on similar assets.

The depreciation expense and amortisation charge for future periods are adjusted if there are significant changes from previous estimates.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

28 Significant Accounting Estimates and Judgements (Continued)

(c) Construction Revenue Recognition Relating to Service Concession Arrangement

In accordance with Hong Kong (IFRIC) Interpretation 12 *Service Concession Arrangements*, income and expenses associated with construction work and project management provided under the concession service arrangement are recognised as per 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 balance sheet date, 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

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29 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the year ended 31 December 2009

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective in respect of the year ended 31 December 2009, and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
HKFRS 3 (Revised), *Business combinations*	1 July 2009
Amendments to HKAS 27, *Consolidated and separate financial statements*	1 July 2009
Amendments to HKAS 39, *Financial instruments: Recognition and measurement – Eligible hedged items*	1 July 2009
HK (IFRIC 17), *Distributions of non-cash assets to owners*	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations 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 Group's or the Company's results of operations and financial position.