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

Interim Report 2010

CONTENTS

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 SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITORS

KPMG
Certified Public Accountants

LEGAL ADVISERS AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

PRINCIPAL BANKERS

China Merchants Bank
China Construction Bank Corporation

COMPLIANCE ADVISER

Mizuho Securities Asia Limited

COMPANY WEBSITE

www.huayu.com.hk

STOCK CODE

1823

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and cost of construction services

Turnover of the Group represented revenue from construction work and project management under the Concession Agreement (as defined in the prospectus dated 11 December 2009) and there was no real cash inflow realised/ realisable during the construction phase. Accordingly, turnover recorded by the Group is not cash revenue. For the six months ended 30 June 2010, the Group recorded turnover of approximately HK$169 million, more than seven times of the turnover for the corresponding period last year of approximately HK$24.0 million. With the increase in the major construction work of the Sui-Yue Expressway (Hunan Section), the Group has put in more investment and efforts in the project. As of 30 June 2010, total investment in the project was approximately HK$603.92 million.

Income tax credit and loss for the period

As the Group made further progress in the Sui-Yue Expressway (Hunan Section) project, we also incurred more expenses. However, as at 30 June 2010, the Group has still not commenced toll road operation. Accordingly, our loss for the six months ended 30 June 2010 increased by 126% to approximately HK$5.9 million from approximately HK$2.6 million for the corresponding period last year. Also, due to a larger loss before taxation for the six months ended 30 June 2010, the Group recorded deferred tax credit arising from the temporary differences from the intangible asset-service concession arrangement.

Liquidity and financial resources

During the six months ended 30 June 2010, the Group financed its operations and capital expenditures by utilising internal resources of the Company and a long-term secured bank loan. As at 30 June 2010, the total amount of bank loans drawn by the Group was about HK$344 million and the total cash and cash equivalents, including bank deposits and cash on hand amounted to approximately HK$387 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 its daily operations and capital requirements. As at 30 June 2010, total available banking facilities of the Group amounted to approximately HK$917 million (RMB800 million) from China Merchants Bank, which is mainly for the construction cost of the Sui-Yue Expressway (Hunan Section), among which the amount of outstanding bank borrowings was approximately HK$344 million. The ratio of outstanding bank borrowings to the equity shareholders of the company was approximately 55%.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and emoluments

As at 30 June 2010, the Group employed a total of 53 employees in the PRC and Hong Kong which included the management staff, engineers, technicians, etc. For the six months ended 30 June 2010, the Group's total expenses on the remuneration of employees was approximately HK$4.05 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.

Foreign exchange risk

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

During the six months ended 30 June 2010, the Group did not enter into any hedging arrangements to hedge against its exposure to foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a material and adverse financial impact 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 assets

The banking facilities of RMB1.1 billion (2009: RMB1.1 billion) from China Merchants Bank was secured by the pledge of the toll collection rights of Sui-Yue Expressway (Hunan Section) upon commencement of the toll road operation.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

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 which 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 operating rights for a concession period of 27 years from the date of completion.

The construction of the project was at a more advanced stage for the six months ended 30 June 2010. As at 30 June 2010, all acquisition, demolition and resettlement process was completed. The work for the roadbed was approximately 69% completed while the foundation work of the interchange bridges was near completion.

In the second half year of 2010, we will conduct the tender process of the remaining work, including road greening, electrical engineering and building construction.

Future plans and prospects

The Group is now mainly engaged in the construction of the Sui-Yue Expressway (Hunan Section). Construction is expected to be completed by the end of 2011 and operation of the Sui-Yue Expressway (Hunan Section) and the collection of toll is expected to commence in 2012.

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 AND OTHER INFORMATION

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

As at 30 June 2010, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the directors of the Company (the "Model Code") contained in the Rules of Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") were as follows:

Name of director	Nature of interest	Number of shares (ordinary shares)	Percentage
Mr. Chan Yeung Nam (Note 1)	Interest in controlled corporation	300,000,000	72.71%

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

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

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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 period 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 PERSON' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2010, 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	72.71%

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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares for the six months ended 30 June 2010.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company had complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the period for the six months ended 30 June 2010.

CORPORATE GOVERNANCE AND OTHER INFORMATION

AUDIT COMMITTEE

The Company has established an audit committee which is accountable to the Board and the primary duties of which include the review and supervision of the Group's financial reporting process and internal control measures. The audit committee is composed of three independent non-executive directors of the Company, namely Mr. Chu Kin Wang, Peleus, Mr. Sun Xiao Nian and Mr. Hu Lie Ge. Mr. Chu Kin Wang, Peleus is the chairman of the audit committee of the Company. The chairman of the audit committee has professional qualification and experience in financial matters in compliance with the requirement of the Listing Rules.

The audit committee of the Company has met and discussed with the external auditors of the Company, KPMG, and has reviewed the accounting principles and practices adopted by the Group and the results of the Group for the six months ended 30 June 2010. The audit committee considered that the consolidated results of the Group for the six months ended 30 June 2010 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

REVIEW OF THE INTERIM REPORT

The interim financial report for the six months ended 30 June 2010 has not been audited, but have been reviewed by the Audit Committee and KPMG, Certified Public Accountants, the auditors of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

On behalf of the Board of
Huayu Expressway Group Limited
Chan Yeung Nam
Chairman

Hong Kong, 27 August 2010

INDEPENDENT REVIEW REPORT

Independent review report to the board of directors of Huayu Expressway Group Limited
(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 10 to 32 which comprises the consolidated balance sheet of Huayu Expressway Group Limited as at 30 June 2010 and the related consolidated income statement, statement of comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with HKAS 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2010 is not prepared, in all material respects, in accordance with HKAS 34, *Interim financial reporting*.

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

27 August 2010

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010 – unaudited

		Six months ended 30 June	
		2010	2009
	Note	**HK$'000**	HK$'000
Turnover	3	**169,273**	23,988
Cost of construction services		**(165,549)**	(23,460)
Gross profit		**3,724**	528
Other revenue	4	**973**	39
Other net loss	4	**(225)**	—
Administrative expenses		**(10,469)**	(3,664)
Loss before taxation	5	**(5,997)**	(3,097)
Income tax credit	6	**96**	487
Loss for the period		**(5,901)**	(2,610)
Attributable to:			
Equity shareholders of the Company		**(5,564)**	(2,424)
Non-controlling interests		**(337)**	(186)
Loss for the period		**(5,901)**	(2,610)
Loss per share (HK$)			
Basic and diluted	7	**(0.0137)**	(0.0081)

The accompanying notes form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010 – unaudited

	Six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
Loss for the period	**(5,901)**	(2,610)
Other comprehensive income for the period:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong, net of nil tax	**2,667**	488
Total comprehensive income for the period	**(3,234)**	(2,122)
Attributable to:		
Equity shareholders of the Company	**(3,164)**	(1,985)
Non-controlling interests	**(70)**	(137)
Total comprehensive income for the period	**(3,234)**	(2,122)

The accompanying notes form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

As at 30 June 2010 – unaudited

	Note	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Non-current assets			
Property, plant and equipment	8	**1,589**	1,716
Intangible asset — service concession arrangement	9	**603,922**	414,793
Prepayments	10	**93,353**	77,846
Deferred tax assets		**2,217**	2,086
		701,081	496,441
Current assets			
Prepayments and other receivables		**552**	597
Cash and cash equivalents	11	**386,794**	544,249
		387,346	544,846
Current liabilities			
Accruals and other payables	12	**90,075**	58,056
Amount due to a related company		**290**	536
		90,365	58,592
Net current assets		**296,981**	486,254
Total assets less current liabilities		**998,062**	982,695
Non-current liabilities			
Long-term secured bank loan	13	**343,800**	340,830
NET ASSETS		**654,262**	641,865

CONSOLIDATED BALANCE SHEET

As at 30 June 2010 – unaudited

	Note	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
CAPITAL AND RESERVES	14		
Share capital		**4,126**	4,000
Reserves		**619,340**	606,999
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**623,466**	610,999
Non-controlling interests		**30,796**	30,866
TOTAL EQUITY		**654,262**	641,865

Approved and authorised for issue by the board of directors on 27 August 2010

Chan Yeung Nam
Director

Mai Qing Quan
Director

The accompanying notes form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010 – unaudited

	Attributable to equity shareholders of the Company							
	Share capital Note 14(a) HK$'000	Share premium Note 14(b)(i) HK$'000	Other reserve Note 14(b)(ii) HK$'000	Exchange reserve Note 14(b)(iii) HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2010	**4,000**	**114,539**	**502,784**	**7,264**	**(17,588)**	**610,999**	**30,866**	**641,865**
Changes in equity for the six months ended 30 June 2010:								
Shares issued under placement, net of issuance costs	**126**	**15,505**	**–**	**–**	**–**	**15,631**	**–**	**15,631**
Total comprehensive income for the period	**–**	**–**	**–**	**2,400**	**(5,564)**	**(3,164)**	**(70)**	**(3,234)**
Balance at 30 June 2010	**4,126**	**130,044**	**502,784**	**9,664**	**(23,152)**	**623,466**	**30,796**	**654,262**
Balance at 1 January 2009	–	–	94,863	7,056	(3,203)	98,716	10,940	109,656
Changes in equity for the six months ended 30 June 2009:								
Capital injection	–	–	102,078	–	–	102,078	11,342	113,420
Arising on reorganisation	–	–	(204,545)	–	–	(204,545)	–	(204,545)
Total comprehensive income for the period	–	–	–	439	(2,424)	(1,985)	(137)	(2,122)
Balance at 30 June 2009 and 1 July 2009	–	–	(7,604)	7,495	(5,627)	(5,736)	22,145	16,409
Changes in equity for the six months ended 31 December 2009:								
Capital injection	–	–	82,100	–	–	82,100	9,122	91,222
Arising on reorganisation	3,000	–	428,288	–	–	431,288	–	431,288
Shares issued under placing and public offering, net of issuance costs	1,000	114,539	–	–	–	115,539	–	115,539
Total comprehensive income for the period	–	–	–	(231)	(11,961)	(12,192)	(401)	(12,593)
Balance at 31 December 2009	4,000	114,539	502,784	7,264	(17,588)	610,999	30,866	641,865

The accompanying notes form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2010 – unaudited

		Six months ended 30 June	
		2010	2009
	Note	**HK$'000**	HK$'000
Cash generated from/(used in) operations		**52,002**	(721)
Tax paid		**–**	–
Net cash generated from/(used in) operating activities		**52,002**	(721)
Net cash used in investing activities		**(225,088)**	(148,587)
Net cash generated from financing activities		**15,631**	294,939
Net (decrease)/increase in cash and cash equivalents		**(157,455)**	145,631
Cash and cash equivalents at 1 January		**544,249**	3,886
Effect of foreign exchange rate changes		**–**	8
Cash and cash equivalents at 30 June	11	**386,794**	149,525

The accompanying notes form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PRESENTATION AND PREPARATION

(a) 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 interim financial report for the six months ended 30 June 2010 comprises the Company and its subsidiaries (collectively referred to as the "Group"). 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.

(b) Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, adopted by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 27 August 2010.

The interim financial report has also been prepared in accordance with the same accounting policies adopted by the Group in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the 2009 annual financial statements.

1 BASIS OF PRESENTATION AND PREPARATION (Continued)

(b) Basis of preparation of the financial statements (Continued)

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes includes an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2009 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on page 9.

The financial information relating to the financial year ended 31 December 2009 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2009 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 April 2010.

2 CHANGES IN ACCOUNTING POLICIES

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

- HKFRS 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations — plan to sell the controlling interest in a subsidiary*
- Consequential amendments to HKAS 28, *Investment in associates* and HKAS 31, *Investment in joint ventures*
- Improvements to HKFRSs (2009)

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

2 CHANGES IN ACCOUNTING POLICIES (Continued)

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

– The impact of the majority of the revisions to HKFRS 3, HKAS 27 and HKFRS 5 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

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

Further details of these changes in accounting policy are as follows:

– As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

– Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

– If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

– Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

- If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

- In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

- If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

- If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, Investments in associates, and HKAS 31, Interests in joint ventures, the following policies will be applied as from 1 January 2010:

  - If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  - If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

3 TURNOVER

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

4 OTHER REVENUE AND NET LOSS

	Six months ended 30 June	
	2010	2009
	$'000	$'000
Other revenue		
Interest income from bank deposits	**936**	39
Others	**37**	–
	973	39
Other net loss		
Net foreign exchange loss	**(225)**	–

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Six months ended 30 June	
	2010	2009
	$'000	$'000
(a) Staff costs:		
Salaries, wages and other benefits	**4,015**	1,636
Contributions to defined contribution retirement plans	**35**	67
	4,050	1,703

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

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

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

5 LOSS BEFORE TAXATION (Continued)

Loss before taxation is arrived at after charging: (Continued)

	Six months ended 30 June	
	2010	2009
	$'000	$'000
(b) Other items:		
Auditors' remuneration	**471**	11
Depreciation	**208**	196
Operating lease charges in respect of rental of office premises	**516**	480

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June	
	2010	2009
	$'000	$'000
Deferred tax		
Origination and reversal of temporary differences	**(96)**	(487)

(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 period ended 30 June 2010 and 2009.

(iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiary in the PRC is liable to PRC corporate income tax at a rate of 25% (2009: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the Group did not have assessable profits subject to PRC corporate income tax during the periods ended 30 June 2010 and 2009.

7 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 for the period of HK$5,564,000 (six months ended 30 June 2009: HK$2,424,000) and the weighted average of 406,790,000 (2009: 300,000,000) shares in issue during the interim period. The weighted average number of shares in issue during the period ended 30 June 2009 is based on the assumption that 300 million ordinary shares were in issue as if the shares issued at the date the Company became the holding company of the Group were outstanding throughout the period.

(b) Diluted loss per share

There were no dilutive potential ordinary shares for the six month ended 30 June 2010 and 2009, therefore, diluted loss per share is equivalent to basic loss per share.

8 PROPERTY, PLANT AND EQUIPMENT

	At 30 June 2010 $'000	At 30 June 2009 $'000
Net book value, at 1 January	**1,716**	1,968
Additions	**68**	127
Disposals (net carrying amount)	**–**	–
Depreciation charge for the period	**(208)**	(196)
Exchange difference	**13**	4
Net book value, at 30 June	**1,589**	1,903

9 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

	At 30 June 2010 $'000	At 30 June 2009 $'000
Cost:		
At 1 January	**414,793**	90,373
Additions	**184,537**	135,083
Exchange adjustments	**4,592**	767
	603,922	226,223

On 23 October, 2004, Shenzhen Huayu Investment & Development (Group) Co. Ltd., a company under control of the controlling shareholder, 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 to 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). The Group's right to operate the Sui-Yue Expressway (Hunan Section) and received toll fees therefrom, have been pledged to secure the bank loan.

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 period, the Group recorded revenue of approximately $169,273,000 (30 June 2009: $23,988,000), representing the fair value of the construction work (excluded land collection costs) and project management services provided, with the same amounts recognised as intangible assets – service concession arrangement.

The Group recognised land collection costs of $15,264,000 (30 June 2009: $111,095,000) during the period as intangible asset – service concession arrangement.

No amortisation is recognised in profit or loss as Sui-Yue Expressway (Hunan Section) is not available for use during the periods ended 30 June 2009 and 30 June 2010.

10 PREPAYMENTS

As at 30 June 2010, the Group had made prepayments of $93,353,000 (31 December 2009: $77,846,000) to independent sub-contractors for the construction of Sui-Yue Expressway (Hunan Section).

11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	At 30 June 2010 $'000	At 31 December 2009 $'000
Deposits with bank	**300,664**	205,001
Cash at bank and in hand	**86,130**	339,248
	386,794	544,249

As at 30 June 2010, cash in hand and cash placed with banks in the PRC included in the cash and cash equivalents above amounted to RMB37,695,000 (31 December 2009: RMB147,069,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

12 ACCRUALS AND OTHER PAYABLES

Included in accruals and other payables as at 30 June 2010 are contract guarantee deposits and contract retention deposits to independent contractors of $33,270,000 and $32,299,000 (31 December 2009: $30,021,000 and $17,079,000) 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.

13 LONG-TERM SECURED BANK LOAN

At 30 June 2010, the long-term secured bank loan is repayable as follows:

	At 30 June 2010 $'000	At 31 December 2009 $'000
After 2 years but within 5 years	**68,760**	34,083
After 5 years	**275,040**	306,747
	343,800	340,830

The amounts of banking facilities available and the utilisation at 30 June are set out as follows:

	At 30 June 2010 $'000	At 31 December 2009 $'000
Facility amount available	**916,800**	908,880
Amounts utilised	**343,800**	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 Daoyue were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. The borrowing costs for the six months period ended 30 June 2010 of $18,550,000 (30 June 2009: $895,000) have been capitalised into intangible asset – service concession arrangement at a variable rate of 5.346% (30 June 2009: 5.346%) per annum.

14 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	At 30 June 2010		At 31 December 2009	
	No. of shares '000	HK$'000	No. of shares '000	HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000**	**100,000**	10,000,000	100,000

The Company was incorporated on 21 April 2009 with authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 par value. 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.

	At 30 June 2010		At 31 December 2009	
	No. of shares	HK$'000	No. of shares	HK$'000
Ordinary shares, issued and fully paid:				
Shares issued upon incorporation (note (i))	**1**	**–**	1	–
Issuance of new shares on reorganisation (note (ii))	**299,999,999**	**2,999**	299,999,999	2,999
Issuance of shares for placing and public offering (note (iii))	**100,000,000**	**1,000**	100,000,000	1,000
Share placing and subscription (note (iv))	**12,608,000**	**126**	–	–
	412,608,000	**4,126**	400,000,000	4,000

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

Notes:

(i) The Company was incorporated on 21 April 2009 with an authorised share capital of $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.

14 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(a) Share capital (Continued)

Notes: (Continued)

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

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

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

(b) 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 13 April 2009, Good Sign Limited ("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 to the Company the receivable balances due from the group companies amounted to $513,388,000. The difference between the assigned receivable balances over the nominal value of the shares issued by the Company in exchange thereof was recorded in "Other reserve".

14 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Reserves (Continued)

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the PRC operation.

(c) Dividends

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

15 COMMITMENTS

(a) Operating lease commitments

At 30 June 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2010 $'000	At 31 December 2009 $'000
Within 1 year	**406**	800
After 1 year but within 5 years	**145**	145
	551	945

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.

15 COMMITMENTS (Continued)

(b) Capital commitments

Capital commitments outstanding at 30 June 2010 not provided for in the financial statements were as follows:

	At 30 June 2010 $'000	At 31 December 2009 $'000
Contracted for	**816,960**	624,098
Authorised but not contracted for	**552,892**	890,423

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

16 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the interim financial report, the Group entered into the following material related party transactions.

(a) During the period, the directors are of the view that the following individual and 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	Under the control of the controlling shareholder of the Company
Shenzhen Yong An Ran Engineering & Construction Co. Ltd.* 深圳市永安然工程建設公司	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.

16 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Particulars of significant transactions between the Group and the above related parties during the period are as follows:

	Six months ended 30 June	
	2010	2009
Non recurring transactions	**$'000**	$'000
Short term advances from the controlling shareholder of the Company	**–**	211,534
Expense paid by a related company on behalf of the Group	**290**	–

(c) Balances with related parties

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

	At 30 June 2010 $'000	At 31 December 2009 $'000
Amount due to a related company – Shenzhen Huayu Investment & Development (Group) Co. Ltd.	**(290)**	(536)

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.

16 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors is as follows:

	Six months ended 30 June	
	2010	2009
	$'000	$'000
Basic salaries, allowances and other benefits in kind	**7,671**	1,273
Contributions to defined contribution retirement scheme	**99**	16
Discretionary bonuses	**–**	–
	7,770	1,289

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