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

2011
ANNUAL REPORT

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Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sun Xiao Nian
Chu Kin Wang, Peleus
Hu Lie Ge

BOARD COMMITTEES

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

Hu Lie Ge (Chairman)
Chu Kin Wang, Peleus
Fu Jie Pin

COMPANY SECRETARY

Sin Ka Man *HKICPA, FCCA*

AUTHORISED REPRESENTATIVES

Chan Yeung Nam
Sin Ka Man

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

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

PRINCIPAL BANKERS

China Merchants Bank
China Construction Bank Corporation
Wing Lung Bank

COMPANY WEBSITE

www.huayu.com.hk

STOCK CODE

1823

Financial Summary

For the year ended 31 December

RESULTS	**2011 HK$'000**	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Turnover	**1,124,650**	537,631	205,538	10,080	5,573
Loss before taxation	**(282,212)**	(11,321)	(15,687)	(3,221)	(834)
Income tax benefit/(expenses)	**64,388**	(314)	740	831	168
Loss for the year	**(217,824)**	(11,635)	(14,947)	(2,390)	(666)
Attributable to:					
Equity shareholders of the Company	**(197,800)**	(12,069)	(14,385)	(2,140)	(588)
Non-controlling interests	**(20,024)**	434	(562)	(250)	(78)
	(217,824)	(11,635)	(14,947)	(2,390)	(666)

As at 31 December

ASSETS AND LIABILITIES	**2011 HK$'000**	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Total assets	**2,186,322**	1,253,597	1,041,287	137,954	59,017
Total liabilities	**(1,673,870)**	(557,377)	(399,422)	(28,298)	(6,691)
	512,452	696,220	641,865	109,656	52,326
Attributable to:					
Equity shareholders of the Company	**458,951**	628,348	610,999	98,716	47,107
Non-controlling interests	**53,501**	67,872	30,866	10,940	5,219
	512,452	696,220	641,865	109,656	52,326

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 2011.

2011 was an exciting year for the Group. The construction work of the Sui-Yue Expressway (Hunan Section) was performed according to our plan and has been substantially completed in December 2011. Sui-Yue Expressway (Hunan Section) commenced operation in December 2011 and the Group began to collect toll revenue and the traffic volume was satisfactory. With the continuous strong economic growth in China, we are expecting a significant increase in the performance of our toll road project in the coming years.

During 2011, we have also entered into a sale and purchase agreements to conditionally acquire the entire interest of Sumqreat Investments Limited and its subsidiaries, which in turn held the interests in four toll road projects, namely, the Shuiguan Expressway, the Shuiguan Expressway Extension Line, the Shenzhen Qingping Expressway and the Shenzhen Eastern Expressway. Two of them are currently in operation and revenue generating while the others are under construction. The acquisition, if completed, will enable the Group to derive immediate substantial earnings and cash flow contribution. We are now working towards the satisfaction of conditions precedent to the said sale and purchase agreement, including the placing of shares of the Company.

Although we currently only have one expressway project in the Group and we have entered into the sale and purchase agreement for the proposed acquisition of the entire interest of Sumqreat Investments Limited and its subsidiaries, our prospects is not limited to that project and the proposed acquisition. In accordance with our strategy, we will pursue other infrastructure projects in China whenever suitable opportunity arises. Apart from developing new infrastructure projects, we might also consider acquiring abandoned or half-developed infrastructure projects, as well as infrastructure projects which are already in operation, from other developers or the Chinese government if it is commercially viable to do so.

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

Chan Yeung Nam
Chairman

Hong Kong, 29 March 2012

Management Discussion and Analysis

2011 was a remarkable year for the Group with the commencement of operation of the Sui-Yue Expressway (Hunan Section) in December 2011. The Group started to operate the toll road and generate toll revenue from such expressway from its commencement.

FINANCIAL REVIEW

TURNOVER AND COST OF CONSTRUCTION SERVICES

The Group is mainly engaged in the construction, operation and management of the Sui-Yue Expressway (Hunan Section) in Hunan, the PRC (the "Expressway"). During 2011, the Expressway was mainly under construction and only commenced its operation from December 2011. Toll revenue was collected from that time. Turnover during the year mainly represented revenue from construction work and project management services under the service concession arrangement and there was no real cash inflow realized or realizable during the construction period. In addition, there was some toll fee revenue received in the last few days of December 2011 upon commencement of the operation of the Expressway.

For the year ended 31 December 2011, the Group recorded a turnover of approximately HK$1,124.7 million, about 2 times of that for the year ended 31 December 2010 of approximately HK$537.6 million. The increase in the turnover was mainly due to the increased injection of investments and efforts in the construction of the Expressway during the year. Among the turnover of the Group in 2011, there was about HK$0.7 million toll income collected after the commencement of operation of the Expressway. Total investment in the Expressway was about HK$2,211.9 million (2010: HK$1,007.3 million) as at 31 December 2011.

OTHER REVENUE AND NET LOSS

The Group recorded other revenue and net loss of approximately HK$0.3 million and HK$0.4 million respectively (2010: HK$1.9 million and HK$1.0 million respectively). Other revenue of the Group was mainly interest income from bank deposits. The decrease in other revenue was mainly due to the application of cash for the payment of construction cost during the year. Other net loss was mainly the decrease in fair value of the interest rate swap agreement entered into during the year.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 29% from approximately HK$24.2 million for the year ended 31 December 2010 to approximately HK$31.2 million for the year ended 31 December 2011. The increase mainly due to the professional fees incurred for the proposed acquisition of the entire issued share capital of Sumgreat Investments Limited during the year.

Management Discussion and Analysis

IMPAIRMENT LOSS OF INTANGIBLE ASSETS

The Expressway commenced operation in late-December 2011. After the commencement of operation of the Expressway, the Company has noted that the actual traffic volume of the Expressway was lower than the forecasted volume of the Expressway as set out in the traffic consultant's report dated 11 December 2009, the text of which was set out in Appendix IV to the prospectus of the Company issued on 11 December 2009 (the "**Prospectus**").

In accordance with the relevant accounting policy of the Company, the Company has reviewed, in the course of preparation of the financial statements for the year ended 31 December 2011, internal and external sources of information on the intangible assets – service concession arrangement (the "**Intangible Asset**") to assess whether the Intangible Asset may be impaired based on the actual traffic volume data of the Expressway between late December 2011 and mid-February 2012. Accordingly, the Company approached a traffic consultant to perform an updated forecast of the traffic volume for the Expressway throughout the concession period based on the actual traffic volume of the Expressway between late December 2011 and mid-February 2012. According to the updated forecast prepared by the traffic consultant finalized in mid-March 2012, the traffic volume was lower than that forecasted in 2009.

As the forecasted traffic volume set out in the updated forecast prepared by the traffic consultant was lower than the volume forecasted in 2009, the Directors consider that an indication that there might be an impairment loss of the Intangible Asset exists, thus consider it would be necessary to conduct a valuation of the Intangible Asset for the year ended 31 December 2011 pursuant to the relevant accounting policy of the Company.

On this basis, the Company approached an independent valuer to prepare an updated business valuation on Hunan Daoyue Expressway Industry Co., Ltd. ("**Hunan Daoyue**") as at 31 December 2011. The valuation was based on the income approach, which was the same approach used for the business valuation on Hunan Daoyue as at 31 October 2009. The text of the such business valuation report was set out in Appendix III to the Prospectus.

The discount rate used for the updated business valuation on Hunan Daoyue as at 31 December 2011 has increased to a post-tax discount rate of 12% from the original post-tax discount rate of 9.6% used in the business valuation of Hunan Daoyue as at 31 October 2009, mainly due to the following changes in the key assumptions:

(i) *Traffic volume:* forecast of the traffic volume for the Expressway throughout the concession period has decreased, which has been updated based on the actual traffic volume of the Expressway between late December 2011 and Mid-February 2012;

(ii) *Toll revenue:* in addition to the decrease of the traffic volume forecast, the average toll rate has also been adjusted downward in light of the actual toll rate table of the Expressway currently in use approved by the relevant authorities in December 2011, which has been set according to the latest policy of the government of the People's Republic of China;

Management Discussion and Analysis

(iii) *Operating and management expresses:* forecast of the operating and management expenses for the Expressway throughout the concession period has been updated based on the actual labour cost and other expenses of the Expressway as at 31 December 2011; and

(iv) *Risk:* a higher discount rate is adopted as it is considered that the risk associated with the industry and the Expressway have increased, which are respectively indicated by higher beta observed from the comparable companies and the significant downward adjustment of the financial forecast.

In assessing the amount of impairment loss of the Intangible Asset, the recoverable amount of the Intangible Asset was equivalent to its value in use, which was calculated based on the expected cash flow during the concession period of the Expressway discounted to their present value using a post-tax discount rate of 12% (equivalent to pre-tax discount rate of 13.8%). As a result, there was an impairment loss of HK$275.5 million (2010: Nil) for the Intangible Asset.

The Company has recognized this impairment loss of HK$275.5 million on the Intangible Asset for the financial year ended 31 December 2011 rather than for the financial year ended 31 December 2010 due to the following reasons:

(i) during the preparation of the financial statements for the year ended 31 December 2010, which was prior to the commencement of operation of the Expressway as it was still under constructions, based on the then available internal and external information and management's assessment on the Intangible Asset, there was no indication that the Intangible Asset may be impaired. As such, based on the relevant accounting policy of the Company, no external valuation on the Intangible Asset has been conducted and no impairment loss was made for the year ended 31 December 2010; and

(ii) after the Expressway commenced operation in late December 2011, an indication of a possible impairment loss of the Intangible Asset was identified (a) after a meaningful period has passed, during which the Company has collected some preliminary traffic volume data of the Expressway; and (b) upon completion of an updated traffic volume forecast for the Expressway throughout the concession period prepared by the traffic consultant based on such data. In accordance with the relevant accounting policy of the Company, the impairment loss of the Intangible Asset was recognized in the year ended 31 December 2011.

LOSS FOR THE YEAR

As the Group incurred an impairment loss of intangible assets during the year, the loss for the year ended 31 December 2011 increased from approximately HK$11.6 million for the year ended 31 December 2010 to approximately HK$217.8 million. Disregarding this one-off impairment loss of approximately HK$275.5 million and its related deferred tax benefits of approximately HK$68.9 million, the Group incurred a loss for the year of approximately HK$11.2 million, which is about the same as the loss for the year ended 31 December 2010 of approximately HK$11.6 million.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2011, the Group financed its operations and capital expenditures by the working capital of the Company and long-term-secured bank loans. As at 31 December 2011, total bank loans drawn down by the Group was about HK$1,213.8 million (2010: HK$448.2 million) and the total cash and cash equivalents, including cash at bank and in hand, amounted to approximately HK$168.2 million (2010: HK$157.2 million).

The Group has always pursued a prudent treasury management policy and is in a strong liquidity position with sufficient standby banking facilities to cope with daily operations and the future development demands for capital. As at 31 December 2011, total available banking facilities of the Group amounted to HK$127.8 million from China Merchants Bank, which is mainly for the construction cost of the Expressway, among which the outstanding secured bank loan was HK$1,213.8 million (2010: HK$448.2 million) (equivalent to RMB984 million (2010: RMB380 million)). The ratio of outstanding bank loans to equity holders' equity was 264.4% (2010: 71.3%).

As at 31 December 2011, the bank loans are repayable as follows:

	2011 **HK$'000**	2010 HK$'000
After 1 year but within 2 years	**597,047**	–
After 2 years but within 5 years	**111,015**	70,770
After 5 years	**505,735**	377,440
	1,213,797	448,210

The Group's borrowings were mainly arranged on a floating rate basis. In 2011, the Group used interest rate swaps to convert the rate from floating to fixed rate basis to hedge part of the Group's underlying interest rate fluctuation exposure. As at 31 December 2011, the Group had outstanding floating-to-fixed interest rate swap contracts in the aggregate amount of HK$600 million (2010: Nil).

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 2011, the Group did not enter into any hedging arrangements to hedge against exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group. The management of the Company will continue to monitor the Group's foreign currency exposure and will consider taking appropriate actions, including but not limited to hedging should the need arise.

Management Discussion and Analysis

PLEDGE OF ASSET

As at 31 December 2011, 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 Expressway, upon commencement of the toll road operation.

CAPITAL COMMITMENTS

Capital commitments outstanding as at 31 December 2011 which are not provided for in the financial statements of the Company were as follows:

	2011 **HK$'000**	2010 HK$'000
Contracted for	**92,765**	527,119
Authorised but not contracted for	**–**	566,909

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

BUSINESS REVIEW

SUI-YUE EXPRESSWAY (HUNAN SECTION)

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

The construction work of the Expressway was substantially completed in December 2011 and commenced its operation since then. Pursuant to the concession agreement entered into between Hunan Transportation Department and Hunan Daoyue Expressway Industry Co.,Ltd.（湖南道岳高速公路有限公司）dated 24 November 2009, the Group will operate the Expressway for 27 years. The total construction cost of the Expressway as at 31 December 2011 was about HK$2,211.9 million.

Since the commencement of operation, the result was in line with management's expectation. The traffic flow on the Expressway was about 400,000 motor vehicles and 280,000 motor vehicles for January and February 2012 respectively. Monthly toll revenues generated from Expressway were about RMB6.2 million and RMB5.8 million for January and February 2012 respectively.

Management Discussion and Analysis

PROPOSED ACQUISITION OF THE ENTIRE SHARE CAPITAL OF SUMGREAT INVESTMENTS LIMITED

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

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

As stated in the announcement dated 14 November 2011, due to the volatility of the capital market in the recent months, certain condition precedents to such sales and purchase agreement, including the proposal placing of up to 780,000,000 new ordinary shares with par value of HK$0.01 each in the share capital of the Company, have not been satisfied. The long stop date of the Sales and Purchase Agreement was further extended to 30 April 2012.

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

EMPLOYEES AND EMOLUMENTS

As at 31 December 2011, the Group employed a total of 200 (2010: 51) employees in the PRC and Hong Kong which included the management staff, engineers, technicians, etc. For the year ended 31 December 2011, the Group's total expenses on the remuneration of employees was approximately HK$15.6 million (2010: HK$13.8 million).

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

Management Discussion and Analysis

The Company adopted a share option scheme on 30 November 2009 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. No options have been granted under the share option scheme as at 31 December 2011.

PROSPECTS

The Expressway is one of the expressways with high economic potential in the PRC. It is strategically located in Hunan Province, which is one of the high economic growth provinces in the PRC. Also, the Expressway will be an integral part of the major artery between Hunan Province and Hubei Province. With the construction of the Expressway completed and operation commenced in December 2011, the Company believes that the current relatively limited trading activities between the Wuhan-Jingzhou area in Hubei Province and the Yueyang area in Hunan Province would increase, resulting in significant vehicle turnover for the Expressway.

Furthermore, the Expressway connects 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 Expressway will also show sustainable and continuous growth.

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

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

Corporate Governance Report

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

For the year ended 31 December 2011, the Board has adopted the code provisions set out in the Code of Corporate Governance Practice (the "Code") contained in Appendix 14 to the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") as at 31 December 2011. The Company has applied the principles and complied with the requirements of the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standards set out in the Model Code for the year ended 31 December 2011.

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 2011, 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 meetings of the Board of Directors and Board committees held during the year under review were summarised as follows:

	Board *Note*	**Audit Committee** *Note*	**Remuneration Committee** *Note*	**Nomination Committee** *Note*
Executive Directors				
Chan Yeung Nam	4/4	N/A	N/A	N/A
Mai Qing Quan	4/4	N/A	N/A	N/A
Chen Kai Shu *(Resigned on 7 February 2012)*	4/4	N/A	1/1	N/A
Fu Jie Pin	4/4	N/A	N/A	1/1
Chen Min Yong	4/4	N/A	N/A	N/A
Zhang Bo Qing *(Resigned on 7 February 2012)*	4/4	N/A	N/A	N/A
Yue Feng *(Resigned on 7 February 2012)*	4/4	N/A	N/A	N/A
Mao Hui	4/4	N/A	N/A	N/A
Independent Non-executive Directors				
Sun Xiao Nian	4/4	2/2	N/A	1/1
Chu Kin Wang, Peleus	4/4	2/2	1/1	N/A
Hu Lie Ge	4/4	2/2	1/1	1/1

Note: Number of meetings attended/Number of meetings held

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

Corporate Governance Report

THE ROLES OF CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

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

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

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

BOARD COMMITTEES

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

Corporate Governance Report

AUDIT COMMITTEE

As at 31 December 2011, the audit committee of the Company ("Audit Committee") was established with written terms of reference in compliance with Rules 3.21 of the Listing Rules and paragraph C.3 of the Code. The Audit Committee comprises three members, all being independent non-executive Directors, namely, Mr. Chu Kin Wang, Peleus, Mr. Hu Lie Ge and Mr. Sun Xiao Nian. Mr. Chu Kin Wang, Peleus is the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2011, 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, reappointment and removal of the external auditors, to review the financial statements and significant financial reporting judgments in respect of financial reporting and to oversee the internal controls of our Company.

REMUNERATION COMMITTEE

As at 31 December 2011, the remuneration committee of the Company ("Remuneration Committee") was established with written terms of reference in compliance with paragraph B.1 of the Code. The Remuneration Committee comprises 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 include making recommendation to the Board on the Company's remuneration policy and structure relating to all Directors and senior management of the Company, reviewing and approving performance based remuneration and ensuring none of the 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.

Corporate Governance Report

NOMINATION COMMITTEE

As at 31 December 2011, the nomination committee of the Company ("Nomination Committee") was established with written terms of reference in compliance with the Code. The Nomination Committee comprises three members, namely Mr. Sun Xiao Nian, Mr. Hu Lie Ge and Mr. Fu Jie Pin. Mr. Sun Xiao Nian is the chairman of the Nomination Committee.

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

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

AUDITORS' REMUNERATION

For the year ended 31 December 2011, the remuneration paid or payable to the Group's auditors, KPMG, in respect of the services provided are as follows:

	HK$'000
Audit and review services	1,800
Other services	1,528
Total	3,328

Corporate Governance Report

INTERNAL CONTROL

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

COMMUNICATION WITH SHAREHOLDERS

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

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

Shareholders of the Company 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 56, is an executive Director and the Chairman of the Board. Mr. Chan is the founder of the Group and was appointed as executive Directors in April 2009. He is responsible for the overall management, development and planning of the Group. He is also responsible for assessing and analyzing investment opportunities involving other infrastructure projects when they arise. Mr. Chan graduated from Sun Yat-Sen University. He has more than 14 years of experience in the development, operation and management of highways.

Mr. Mai Qing Quan (麥慶泉), aged 62, is an executive Director and the Chief Executive Officer. He joined the Group in May 2009. Mr. Mai is responsible for the negotiation and communication with the relevant governmental bodies in the PRC. He is also responsible for overseeing the infrastructure projects of the Group. Mr. Mai graduated from Hunan Normal College. He has over 7 years of experience in investment, construction and operation of expressway projects in the PRC.

Mr. Chen Kai Shu (陳開樹), aged 50, joined the Company as an executive Director in May 2009. Mr. Chen was responsible for road greening, soil and water preservation and environmental protection in the expressway projects of the Group. He graduated from 北京林學院 (Beijing Forestry College)*, currently part of Beijing Forestry University, specialising in forestry. He has over 18 years of experience in greening and environmental protection. *(Note)*

Mr. Fu Jie Pin (符捷頻), aged 44, 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 14 years of experience in development, operation and management of highways in the PRC.

Mr. Chen Min Yong (陳民勇), aged 42, joined the Company as an executive Director in May 2009. Mr. Chen was responsible for project development and the establishment of the toll collection system for the highway projects of the Group. He will also be responsible for overseeing the operation of the toll collection management system of the toll roads of the Group when they commence operation. He graduated from 重慶建築工程學院 (Chongqing Institute of Architectural Engineering)*, currently part of the Chongqing University, with a bachelor's degree in engineering majoring in construction material and product. He then completed a graduate program at 長沙交通學院 (Changsha Communications Institute)* majoring in transportation and management in 2001. Mr. Chen has over 13 years of experience in operation and management of highway projects.

Mr. Zhang Bo Qing (張博慶), aged 47, joined the Company as an executive Director in May 2009. Mr. Zhang is responsible for on-site management and project coordination in the highway projects of the Group. He graduated from a graduate training scheme majoring in bridges and tunnel engineering from South West Jiaotong University in 1993. Mr. Zhang is a senior civil engineer accredited by (廣東省人事廳) (Guangdong Province Personnel Bureau)* and has over 11 years of experience in site management of road construction projects. *(Note)*

Note: Resigned as a Director on 7 February 2012

Directors and Senior Management

Mr. Yue Feng (岳峰), aged 68, joined the Company as an executive Director in May 2009. Mr. Yue is responsible for liaising with the relevant bodies in relation to road design. He graduated from 遼寧交通學院 (Liaoning College of Communications)* in vehicle techniques application and reparation. Mr. Yue is a senior engineer accredited by 深圳市交通工程技術人員高 級專業技術資格評審委員會 (Shenzhen Transport Engineering Personnel High Level Committee of Professional and Technical Qualification)*. He was once the vice secretary level inspector of Shenzhen Municipal Transportation Bureau responsible for consultation for traffic and road planning, the head of 深圳交通建設工程專家組 (Shenzhen Transportation Construction Engineering Expert Group)* and the president of 深圳市公路協會 (Shenzhen Road Association)*. *(Note)*

Ms. Mao Hui (毛惠), aged 35, joined the Company as an executive Director and chief financial officer of the Group in May 2009. Ms. Mao is responsible for the finances, internal and external coordination and public relations of the Group. She graduated from 湖南財經學院 (Hunan College of Economics and Finance)* with a degree in bachelor of economics in financial accounting. She then obtained a master degree in management and accounting from Hunan University. Ms. Mao has over 12 years of experience in financial management.

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

Note: Resigned as a Director on 7 February 2012

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Xiao Nian (孫小年), aged 47, joined the Company as an independent non-executive Director in May 2009. He obtained his master degree in automobiles and transport from 吉林工業大學 (Jilin University of Technology)*, currently part of the Jilin University. He then further obtained his doctor degree in transportation planning and management from Tongji University. He is a senior engineer of professor's level accredited by the 廣東省人事廳 (Guangdong Province Personnel Bureau)* in 2003 and a registered consultant engineer accredited by the Ministry of Personnel of the PRC. He is now the vice chief engineer and the head of technical consultation centre of the China Academy of Transportation Sciences.

Mr. Chu Kin Wang, Peleus (朱健宏) aged 47, joined the Company as an independent non-executive Director in May 2009. He obtained his master degree in business administration from the University of Hong Kong. Mr. Chu is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountant, a fellow member of the Association Chartered Certified Accountants and an associate of Hong Kong Institute of Company Secretary and Administrators. Mr. Chu is a director of Chinese People Holdings Company Limited, Flyke International Holdings Limited, China Vehicle Components Technology Holdings Limited and EYANG Holdings (Group) Co., Limited, all of which are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors and Senior Management

Mr. Hu Lie Ge (胡列格) aged 58, joined the Company as an independent non-executive Director in May 2009. He graduated from 長沙交通學院 (Changsha Communications Institute)* in Mathematical Mechanics and completed a graduate course in Probability Theory and Mathematics Statistics at 長沙鐵道學院 (Changsha Railway University)*, currently part of Central South University. Mr. Hu was once the Head of the 交通運輸學院 (College of Transportation and Communications)* in Changsha University of Science and Technology and is now a member of 湖南省促進物流業發展專家委員會 (Hunan Province Committee for Facilitation of the Development of the Logistics Industry)*.

SENIOR MANAGEMENT

Mr. Gan Xian Hui (甘先會) aged 42, joined the Group as a chief contract budget controller in 2008. Mr. Gan is responsible for controlling contract budget and organisation of invitations to tender. He graduated from 西安冶金建築學院(Xi'an Institute of Metallurgy and Construction)*, currently known as Xi'an University of Architecture and Technology, with a bachelor degree in engineering majoring in industrial and civil architecture. Mr. Gan has over 12 years of experience in the management of construction projects.

Mr. Chen Jing An (陳景安) aged 63, 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 14 years of experience in the design and technical management of highways projects in the PRC.

Ms. Liu Dan Yi (劉丹宜) aged 51, joined the Group as a general manager of human resources and administration in 2007. She is responsible for the administration management, human resources management and back-office management of the Group. Ms. Liu obtained her master degree in engineering from Shanghai Jiao Tong University. She has over 23 years experience in administration and human resources.

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

Report of the Directors

The Board presents this annual report together with the audited consolidated financial statements for the year ended 31 December 2011.

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company is incorporated and domiciled in Cayman Islands and has its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, Cayman Islands and its principal place of business in Hong Kong Room 919, 9/F, China Merchants Tower, Shun Tak Centre, Sheung Wan, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 12 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The Sui-Yue Expressway (Hunan Section) project was under construction and the Group has not commenced the toll road operation until late December 2011. The Group have no customer information for such period since the toll road commenced operations in late December 2011 and it is open to public. 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 2011 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 30 to 82.

RESERVES

Details of movements in the reserve of the Company from the date of incorporation to 31 December 2011 are set out in note 19 to the consolidated financial statements.

Losses attributable to shareholders of the Company HK$217,824,000 (2010: HK$11,635,000) 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 2011 (2010: HK$Nil).

Report of the Directors

CHARITABLE DONATIONS

No charitable donations were made by the Group during the year ended 31 December 2011 (2010: HK$Nil).

FIXED ASSETS

Details of the movements in fixed assets during the year ended 31 December 2011 are set out in note 10 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company from the date of incorporation to 31 December 2011 are set out in note 19 to the consolidated financial statements.

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries since the listing date until 31 December 2011.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. Chan Yeung Nam
Mr. Mai Qing Quan
Mr. Chen Kai Shu *(resigned on 7 February 2012)*
Mr. Fu Jie Pin
Mr. Chen Min Yong
Mr. Zhang Bo Qing *(resigned on 7 February 2012)*
Mr. Yue Feng *(resigned on 7 February 2012)*
Ms. Mao Hui

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Report of the Directors

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

By virtue of Articles 84 and 85 of the Articles, Mr. Sun Xiao Nian, Mr. Chu Kin Wang, Peleus and Mr. Hu Lie Ge will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Each of the executive and independent non-executive Directors has entered into a service contract with the Company for an initial term of three years commencing 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 2011, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the directors of the Company (the "Model Code") contained in the Rules of Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") were as follows:

Name of director	Nature of interest	Number of shares (ordinary shares)	Percentage
Mr. Chan Yeung Nam *(Note)*	Interest in controlled corporation	1,080,000,000	261.75%

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.

2. According to the sales and purchase agreement dated 12 April 2011, entered into between the Company and Mr. Chan Yeung Nam, relating to the proposed acquisition of the entire issued share capital of Sumgreat Investments Limited 780,000,000 ordinary shares will be issued to Mr. Chan Yeung Nam as consideration upon completion of the acquisition.

Report of the Directors

Apart from the forgoing, as at 31 December 2011, none of the Directors or chief executive of the Company or any of their spouses or children under eighteen years of age had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

SHARE OPTION SCHEME

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

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

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

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

Report of the Directors

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

As at 31 December 2011, so far as it is known to any director or chief executive of the Company, the persons (other than the directors and the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were directly or indirectly, interested in 10% of more of the nominal value of any shares of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issue shares as required under the Listing Rules for the period from the listing date to 31 December 2011.

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 2011 are set out in note 17 to the financial statements.

Report of the Directors

FINANCIAL SUMMARY

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

RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$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 2011 amounted to HK$564,000 (2010: HK$532,000).

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CODE OF CORPORATE GOVERNANCE PRACTISES

The Company has complied with all the code provisions of the Code during the year ended 31 December 2011.

Report of the Directors

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2011.

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 2011.

AUDITORS

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

By order of the board

Chan Yeung Nam
Chairman
Hong Kong, 29 March 2012

Independent Auditor's Report

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

(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Huayu Expressway Group Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 30 to 82, which comprise the consolidated and company statements of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 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
29 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Turnover	3	**1,124,650**	537,631
Cost		**(1,099,807)**	(525,803)
Gross profit		**24,843**	11,828
Other revenue	4	**342**	1,944
Other net loss	4	**(374)**	(955)
Administrative expenses		**(31,239)**	(24,158)
Impairment loss of intangible assets	11	**(275,464)**	–
Loss from operations		**(281,892)**	(11,341)
Finance costs	5(a)	**(320)**	–
Subsidy income		**–**	20
Loss before taxation	5	**(282,212)**	(11,321)
Income tax	6(a)	**64,388**	(314)
Loss for the year		**(217,824)**	(11,635)
Attributable to:			
Equity shareholders of the Company		**(197,800)**	(12,069)
Non-controlling interests		**(20,024)**	434
Loss for the year		**(217,824)**	(11,635)
Loss per share (HK Cents)			
Basic and diluted	9	**(47.94)**	(2.93)

The notes on pages 38 to 82 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 **HK$'000**	2010 HK$'000
Loss for the year	**(217,824)**	(11,635)
Other comprehensive income for the year		
Exchange differences on translation of financial statements of a subsidiary outside Hong Kong, net of nil tax	**31,526**	15,324
Total comprehensive income for the year	**(186,298)**	3,689
Attributable to:		
Equity shareholders of the Company	**(169,397)**	1,718
Non-controlling interests	**(16,901)**	1,971
Total comprehensive income for the year	**(186,298)**	3,689

The notes on pages 38 to 82 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	10	**2,367**	1,845
Intangible asset - service concession arrangement	11	**1,936,165**	1,007,258
Deferred tax assets	18	**66,341**	1,967
		2,004,873	1,011,070
Current assets			
Prepayments and other receivables	13	**13,226**	85,301
Cash at bank and in hand	14(a)	**168,223**	157,226
		181,449	242,527
Current liabilities			
Derivative financial instrument	15	**335**	–
Accruals and other payables	16	**420,755**	108,743
Amount due to a related company	23(c)	**1,300**	424
Bank loan	17	**584,712**	–
		1,007,102	109,167
Net current (liabilities)/assets		**(825,653)**	133,360
Total assets less current liabilities		**1,179,220**	1,144,430
Non-current liabilities			
Bank loans	17	**629,085**	448,210
Amount due to the controlling shareholder of the Company	23(c)	**37,683**	–
		666,768	448,210
NET ASSETS		**512,452**	696,220

The notes on pages 38 to 82 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2011 (continued)

	Note	2011 HK$'000	2010 HK$'000
CAPITAL AND RESERVES	19		
Share capital		**4,126**	4,126
Reserves		**454,825**	624,222
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**458,951**	628,348
Non-controlling interests		**53,501**	67,872
TOTAL EQUITY		**512,452**	696,220

Approved and authorised for issue by the board of directors on 29 March 2012.

Chan Yeung Nam	**Mai Qing Quan**
Directors	*Directors*

The notes on pages 38 to 82 form part of these financial statements.

Statement of Financial Position

At 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Interests in subsidiaries	12	**327,450**	513,388
Current assets			
Prepayments and other receivables	13	**–**	150
Amounts due from subsidiaries		**116,873**	109,113
Cash and cash equivalents	14(a)	**1,154**	7,441
		118,027	116,704
Current liabilities			
Amounts due to subsidiaries		**2,672**	2,672
Accruals and other payables	16	**3,902**	1,500
		6,574	4,172
Net current assets		**111,453**	112,532
Total assets less current liabilities		**438,903**	625,920
Non-current liabilities			
Amount due to the controlling shareholder of the Company	23(c)	**12,114**	–
NET ASSETS		**426,789**	625,920

The notes on pages 38 to 82 form part of these financial statements.

Statement of Financial Position

At 31 December 2011 (continued)

	Note	2011 HK$'000	2010 HK$'000
CAPITAL AND RESERVES	19		
Share capital		**4,126**	4,126
Reserves		**422,663**	621,794
TOTAL EQUITY		**426,789**	625,920

Approved and authorised for issue by the board of directors on 29 March 2012.

Chan Yeung Nam
Directors

Mai Qing Quan
Directors

The notes on pages 38 to 82 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Note	Share capital HK$'000 (Note 19(c))	Share premium HK$'000 (Note 19(d)(i))	Other reserve HK$'000 (Note 19(d)(ii))	Exchange reserve HK$'000 (Note 19(d)(iii))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
		Attributable to equity shareholders of the Company							
Balance at 1 January 2011		4,126	130,044	502,784	21,051	(29,657)	628,348	67,872	696,220
Changes in equity for 2011:									
Loss for the year		–	–	–	–	(197,800)	(197,800)	(20,024)	(217,824)
Other comprehensive income									
– Exchange differences		–	–	–	28,403	–	28,403	3,123	31,526
Total comprehensive income for the year		–	–	–	28,403	(197,800)	(169,397)	(16,901)	186,298
Capital injection by non-controlling interests to a subsidiary		–	–	–	–	–	–	2,530	2,530
Balance at 31 December 2011		4,126	130,044	502,784	49,454	(227,457)	458,951	53,501	512,452
Balance at 1 January 2010		4,000	114,539	502,784	7,264	(17,588)	610,999	30,866	641,865
Changes in equity for 2010:									
Loss for the year		–	–	–	–	(12,069)	(12,069)	434	(11,635)
Other comprehensive income									
– Exchange differences		–	–	–	13,787	–	13,787	1,537	15,324
Total comprehensive income for the year		–	–	–	13,787	(12,069)	1,718	1,971	3,689
Capital injection by non-controlling interests to a subsidiary		–	–	–	–	–	–	35,035	35,035
Shares issued under placing, net of issuance costs		126	15,505	–	–	–	15,631	–	15,631
Balance at 31 December 2010		4,126	130,044	502,784	21,051	(29,657)	628,348	67,872	696,220

The notes on pages 38 to 82 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Net cash generated from/(used in) operating activities	14(b)	**89,649**	(25,477)
Investing activities			
Payment for the purchase of property, plant and equipment		**(971)**	(492)
Payment for intangible assets		**(849,689)**	(505,954)
Interest received		**342**	1,926
Net cash used in investing activities		**(850,318)**	(504,520)
Financing activities			
Proceeds from bank loans		**729,337**	91,672
Increase in amount due to the controlling shareholder of the Company		**37,682**	–
Capital contribution by non-controlling interests		**2,530**	35,035
Proceed from issue of share capital, net of issuing expenses		**–**	15,631
Net cash generated from financing activities		**769,549**	142,338
Net increase/(decrease) in cash and cash equivalents		**8,880**	(387,659)
Cash and cash equivalents at 1 January		**157,226**	544,249
Effect of foreign exchange rate changes		**(6,518)**	636
Cash and cash equivalents at 31 December	14(a)	**159,588**	157,226

The notes on pages 38 to 82 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(A) STATEMENT OF COMPLIANCE

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

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

(B) BASIS OF PREPARATION

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries.

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(B) BASIS OF PREPARATION (continued)

At 31 December 2011, the Group's net current liabilities were HK$825,653,000. The Directors had made an assessment and concluded that the Group are able to continue as a going concern for the year ending 31 December 2012 and to meet their obligations, as and when they fall due, having regard to the following:

i the Group expects to generate positive operating cash flows for the year ending 31 December 2012;

ii as stated in note 17, based on the cash flow forecast, the Group expects to comply with bank covenants and meet scheduled repayment obligations in 2012 and does not consider it probable that the lender of the Group's long term loan repayable on demand of HK$584,712,000 will exercise its discretion to demand repayment in 2012;

iii the Group had unutilised bank facilities of HK$127,765,000 at 31 December 2011;

iv as at 31 December 2011, the Group's contract retention deposits of HK$110,831,000 and advance receipt of HK$112,249,000 were expected to be settled or recognised as income respectively after more than 1 year; and

v the controlling shareholder of the Company undertakes that repayment of advances of HK$37,682,000 at 31 December 2011 will not be requested in the year ending 31 December 2012.

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

(C) CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued 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:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(C) CHANGES IN ACCOUNTING POLICIES (continued)

The impacts of the above developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

(D) SUBSIDIARIES AND NON-CONTROLLING INTERESTS

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

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

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(k) or (l) depending on the nature of the liability.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(E) DERIVATIVE FINANCIAL INSTRUMENTS

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

(F) PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation is calculated to write off the cost 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 vehicle	5 years
– Furniture and fixtures	5 years

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(G) INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

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

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. The concession grantor has not provided any contractual guarantee in respect of the amounts of construction costs incurred to be recoverable. Intangible assets received as consideration for providing construction work and project management services in a service concession arrangement are measured at fair value upon initial recognition. Subsequent to initial recognition the intangible asset is measured at cost less accumulated amortisation and any impairment losses (see note 1(i)).

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

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

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

Both the period and method of amortisation are reviewed annually.

(H) OPERATING LEASE CHARGES

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) IMPAIRMENT OF ASSETS

(i) Impairment of receivables

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

(ii) Impairment of other assets

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

– property, plant and equipment;
– investment in subsidiaries; and
– intangible assets – service concession arrangement.

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

– *Calculation of recoverable amount*

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) IMPAIRMENT OF ASSETS (continued)

(ii) Impairment of other assets (continued)

– *Recognition of impairment losses*

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

– *Reversals of impairment losses*

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

(J) RECEIVABLES

Receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 1(i)).

(K) INTEREST-BEARING BORROWINGS

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(L) PAYABLES

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

(M) CASH AND CASH EQUIVALENTS

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

(N) EMPLOYEE BENEFITS

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

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

(ii) Termination benefits

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

(O) INCOME TAX

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(O) INCOME TAX (continued)

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

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

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(O) INCOME TAX (continued)

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(P) PROVISIONS AND CONTINGENT LIABILITIES

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

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

(Q) REVENUE RECOGNITION

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

(i) Revenue from construction work and project management services under the service concession arrangement

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(Q) REVENUE RECOGNITION (continued)

(ii) Toll revenue

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

(iii) Interest income

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

(R) TRANSLATION OF FOREIGN CURRENCIES

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

The results of the foreign operation are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(S) BORROWING COSTS

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(T) RELATED PARTIES

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(U) SEGMENT REPORTING

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

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

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES

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

(A) CONSTRUCTION REVENUE RECOGNITION RELATING TO SERVICE CONCESSION ARRANGEMENT

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

Due to the fact that there was no real cash inflow realised/realisable during the construction phase of the infrastructure assets under the service concession arrangement, in order to determine the construction revenue to be recognised during the year, the directors of the Company made estimates of the respective amounts by making reference to the management service fees derived from the Group's provision of project management services in relation to the Sui-Yue Expressway (Hunan Section) without the corresponding grant of the related toll road operating rights and entitlement to future toll revenues.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(A) CONSTRUCTION REVENUE RECOGNITION RELATING TO SERVICE CONCESSION ARRANGEMENT (continued)

The directors of the Company have drawn an analogy of the construction of toll road under the service concession arrangement as if the Group were providing project management services for the construction of toll road. Accordingly, construction revenue under the respective service concession arrangement is recognised at the total expected construction costs of the toll road plus management fees, computed at an estimated percentage of the costs.

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

(B) IMPAIRMENT

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

2 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(C) AMORTISATION OF INTANGIBLE ASSETS – SERVICE CONCESSION ARRANGEMENT

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

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

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

3 TURNOVER

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

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

	2011 **$'000**	2010 $'000
Construction revenue in respect of service concession arrangements	**1,123,981**	537,631
Toll income	**669**	–
	1,124,650	537,631

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

4 OTHER REVENUE AND NET LOSS

	2011	2010
	$'000	$'000
Other revenue		
Interest income from bank deposits	**342**	1,926
Other	**–**	18
	342	1,944
Other net loss		
Exchange loss	**39**	955
Change in fair value of a derivative financial instrument	**335**	–
	374	955

5 LOSS BEFORE TAXATION

LOSS BEFORE TAXATION IS ARRIVED AT AFTER CHARGING:

		2011	2010
		$'000	$'000
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	**9,034**	3,607
	Interest on bank loans repayable beyond five years	**29,878**	16,344
	Total interest expense on bank loans	**38,912**	19,951
	Less: interest expense capitalised into intangible assets*	**(38,592)**	(19,951)
		320	–

* The borrowing costs have been capitalised at a rate of 5.760% – 6.685% per annum (2010: 5.346% – 5.760%).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

5 LOSS BEFORE TAXATION (continued)

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

		2011 $'000	2010 $'000
(b)	Staff costs:		
	Salaries, wages and other benefits	**15,025**	13,271
	Contributions to defined contribution retirement plans	**564**	532
		15,589	13,803

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

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

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

		2011 $'000	2010 $'000
(c)	Other items:		
	Auditors' remuneration		
	– Audit and review services	**1,800**	1,600
	– Other services	**1,528**	1,800
	Depreciation (note 10)	**543**	429
	Amortisation (note 11)	**288**	–
	Impairment loss of intangible assets (note 11)	**275,464**	–
	Operating lease charges in respect of rental of office premises	**1,117**	1,029

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:

	2011 **$'000**	2010 $'000
Deferred tax		
Reversal and origination of temporary differences	**(64,388)**	314

(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 2011 and 2010.

(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% (2010: 25%) on its assessable profits. No provision has been made for PRC corporate income tax as the subsidiary sustained a loss for taxation purpose.

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

	2011 **$'000**	2010 $'000
Loss before taxation	**(282,212)**	(11,321)
Notional tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(66,878)**	(272)
Tax effect on tax losses not recognised	**2,498**	600
Tax effect on non-taxable income	**(8)**	(14)
Income tax (credits)/expenses	**(64,388)**	314

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 2011

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

7 DIRECTORS' REMUNERATION (continued)

Year ended 31 December 2010

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2010: four) were directors of the Company for the year ended 31 December 2011 whose remuneration is disclosed in note 7 above.

The aggregate of the emolument in respect of the remaining one (2010: one) individual is as follows:

	2011	2010
	$'000	$'000
Salaries and other emoluments	**960**	948
Contributions to retirement benefit scheme	**12**	12
Discretionary bonuses	**80**	80
	1,052	1,040

The emolument of the one (2010: one) individual with the highest emolument is within the following bands:

	Number of individuals	
	2011	2010
$Nil to $1,500,000	**1**	1

9 LOSS PER SHARE

(A) LOSS PER SHARE

	2011	2010
	$'000	$'000
Issued ordinary shares at 1 January	**412,608**	400,000
Issuance of shares for placing and public offering	**–**	11,986
Weighted average number of ordinary shares at 31 December	**412,608**	411,986

The calculation of loss per share is based on the consolidated loss attributable to ordinary equity shareholders of the Company of $197,800,000 (2010: $12,069,000) and the weighted average number of 412,608,000 (2010: 411,986,000) shares in issue during the year.

(B) DILUTED LOSS PER SHARE

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

10 PROPERTY, PLANT AND EQUIPMENT

	The Group		
	Motor vehicles	**Furniture and fixtures**	**Total**
	$'000	$'000	$'000
Cost:			
At 1 January 2010	2,029	280	2,309
Additions	423	69	492
Exchange adjustments	89	11	100
At 31 December 2010	2,541	360	2,901
At 1 January 2011	2,541	360	2,901
Additions	928	43	971
Exchange adjustments	138	16	154
At 31 December 2011	3,607	419	4,026
Accumulated depreciation:			
At 1 January 2010	500	93	593
Charge for the year	373	56	429
Exchange adjustments	29	5	34
At 31 December 2010	902	154	1,056
At 1 January 2011	902	154	1,056
Charge for the year	475	68	543
Exchange adjustments	52	8	60
At 31 December 2011	1,429	230	1,659
Net book value:			
At 31 December 2011	2,178	189	2,367
At 31 December 2010	1,639	206	1,845

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT

	The Group	
	2011	2010
	$'000	$'000
Cost:		
At 1 January	**1,007,258**	414,793
Additions	**1,132,064**	562,331
Exchange adjustments	**72,601**	30,134
At 31 December	**2,211,923**	1,007,258
Accumulated amortisation:		
At 1 January	**–**	–
Charge for the year	**288**	–
Exchange adjustments	**6**	–
At 31 December	**294**	–
Impairment loss:		
At 1 January	**–**	–
Charge for the year	**275,464**	–
At 31 December	**275,464**	–
Net book value:		
At 31 December	**1,936,165**	1,007,258

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

During the year, the Group recorded revenue of approximately $1,123,981,000 (2010: $537,631,000), representing the fair value of the construction work (excluded land collection costs) and project management services provided, with the same amounts recognised as intangible assets – service concession arrangement.

In accordance with the accounting policy set out in note 1(g), the Group recognised land collection costs of $8,083,000 (2010: $24,700,000) during the year as intangible assets – service concession arrangement.

In accordance with the accounting policy set out in note 1(g), the amortisation of intangible asset-service concession arrangement is recognised in profit or loss on a unit of usage basis over the estimated useful life, which is the period when it is available for use to the end of the concession period.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INTANGIBLE ASSET – SERVICE CONCESSION ARRANGEMENT (continued)

IMPAIRMENT LOSS

After the Expressway has commenced operation in December 2011, the Directors noted that the actual traffic volume of the Expressway was lower than the previously projected volume in 2009. The group assessed the recoverable amount of the cash generating unit (CGU) containing the Expressway and as a result the carrying amount of the intangible assets – service concession arrangement related to the Expressway was written down by $275,464,000 (included in the consolidated income statement).

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

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

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

Period of operation	27 years
Average toll revenue growth rate over the concession period	8.4%
Discount rate	12%

DISCOUNT RATE

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

AVERAGE TOLL REVENUE GROWTH RATE OVER THE CONCESSION PERIOD

The toll revenue growth rate was determined based on forecasted traffic volume growth and increase in toll rates. The average traffic volume growth rate is estimated to be 4.9% per annum over the concession period. A toll rate increase of 15% every 5 years is assumed in the forecast, an average of 2.8% each year. Toll rate adjustments are subject to approval by the Provincial Price Control Bureau.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

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

Increase or decrease the discount rate by 1%

Discount rate	11%	12%	13%
Impairment loss (HK$)	140,178,000	275,464,000	386,464,000

Increase or decrease the toll revenue by 5% per annum over the concession period

	Decrease 5%	Current estimate	Increase 5%
Impairment loss (HK$)	374,150,000	275,464,000	176,525,000

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INTERESTS IN SUBSIDIARIES

	The Company	
	2011	2010
	$'000	$'000
Unlisted equities, at cost	**513,388**	513,388
Less: impairment loss	**(185,938)**	–
	327,450	513,388

Details of the subsidiaries at 31 December 2011 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 VirginIslands ("BVI") 18 March 2003	US$1/ US$50,000	100%	–	Investment holding
Good Sign Limited ("Good Sign")	Hong Kong 19 December 2008	HK$1/ HK$10,000	–	100%	Investment holding
Bright Regent Limited ("Bright Regent")	Hong Kong 10 October 2003	HK$1/ HK$1	–	100%	Provision of administration services to the Group
湖南道岳高速公路實業有限公司 Hunan Daoyue Expressway Industry Co., Ltd. ("Daoyue") *	The PRC 22 December 2006	RMB600,950,000/ RMB600,950,000	–	90%	Construction, operation and management of an expressway in the PRC

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

13 PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Prepayments	**12,218**	84,682	**–**	–
Other receivables	**1,008**	619	**–**	150
	13,226	85,301	**–**	150

14 CASH AT BANK AND IN HAND

(A) CASH AT BANK AND IN HAND COMPRISE:

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Cash and cash equivalents				
– Deposits with bank	**–**	10,346	**–**	–
– Cash at bank and in hand	**159,588**	146,880	**1,154**	7,441
	159,588	157,226	**1,154**	7,441
Restricted bank deposits for interest rate swap of maturity of more than three months	**8,635**	–	**–**	–
	168,223	157,226	**1,154**	7,441

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

14 CASH AT BANK AND IN HAND (continued)

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

	2011 $'000	2010 $'000
Loss before taxation	(282,212)	(11,321)
Adjustments for:		
– Depreciation	543	429
– Amortisation	288	–
– Impairment loss of intangible assets	275,464	–
– Change in fair value of derivative financial instrument	335	–
– Finance cost	320	–
– Interest income	(342)	(1,926)
– Foreign exchange loss	39	–
– Profit from construction work and project management services under service concession arrangement	(24,728)	(11,828)
Changes in working capital:		
Increase in prepayments and other receivables	(7,450)	(12)
Increase/(decrease) in accruals and other payables	126,556	(707)
Increase/(decrease) in amount due to a related company	836	(112)
Net cash generated from/(used in) operating activities	89,649	(25,477)

15 DERIVATIVE FINANCIAL INSTRUMENT

	The Group	
	2011 $'000	2010 $'000
Interest rate swap	335	–

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

16 ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Construction payables	**261,078**	99,170	**–**	–
Advance received	**129,518**	–	**–**	–
Accruals	**30,159**	9,573	**3,902**	1,500
	420,755	108,743	**3,902**	1,500

Included in accruals and other payables as at 31 December 2011 are contract retention deposits to independent contractors of HK$110,831,000 (2010: HK$46,864,000) which are expected to be settled after more than one year. The advance received expected to be recognised as income after more than 1 year is HK$112,249,000 (2010: HK$58,378,000). All of the remaining accruals and other payables are expected to be settled within one year.

17 BANK LOANS

	The Group	
	2011	2010
	$'000	$'000
Current liabilities		
Non-current portion of bank loan repayable on demand	**584,712**	–
Non-current liabilities		
Long-term secured bank loan	**629,085**	448,210
	1,213,797	448,210

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

17 BANK LOANS (continued)

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

	The Group	
	2011	2010
	$'000	$'000
After 1 year but within 2 years	**597,047**	–
After 2 years but within 5 years	**111,015**	70,770
After 5 years	**505,735**	377,440
	1,213,797	448,210

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

	The Group	
	2011	2010
	$'000	$'000
Facility amount available	**127,765**	849,240
Amounts utilised	**1,229,085**	448,210
Facility amount	**1,356,850**	1,297,450

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 loans of the Group are subject to certain financial covenants. In addition, one of the Group's term loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations. Accordingly, this portion of bank loan is classified as current liabilities.

The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in note 20(b). As at 31 December 2011, none of the covenants relating to drawn down facilities had been breached (2010: $nil).

In accordance with the accounting policy set out in note 1(s), the borrowing costs for the year ended 31 December 2011 of $38,912,000 (2010: $19,951,000) have been capitalised into intangible asset – service concession arrangement, at a variable rate of 5.760 – 6.685% (2010: 5.346 – 5.760%) per annum.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

18 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(A) DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED:

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

	Pre-operating expenses $'000	Unused tax losses $'000	Intangible assets-service concession arrangement $'000	total $'000
Deferred tax arising from:				
At 1 January 2010	449	(2)	1,639	2,086
(Charge)/credited to profit or loss (note 6(a))	(79)	9	(244)	(314)
Exchange adjustment	15	–	180	195
At 31 December 2010	385	7	1,575	1,967
At 1 January 2011	385	7	1,575	1,967
(Charge)/credited to profit or loss (note 6(a))	(393)	(7)	64,788	64,388
Exchange adjustment	8	–	(22)	(14)
At 31 December 2011	–	–	66,341	66,341

(B) DEFERRED TAX ASSETS NOT RECOGNISED:

In accordance with the accounting policy set out in note 1(o), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $18,165,000 (2010: $6,499,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

As at 31 December 2011, tax losses of HK$28,000 and HK$7,203,000 of the PRC subsidiary, Daoyue, will expire in the year ending 31 December 2015 and 2016, respectively.

Notes to the Financial Statements

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19 CAPITAL, RESERVES AND DIVIDENDS

(A) MOVEMENTS IN COMPONENTS OF EQUITY

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

The Company

	Share capital $'000	**Share premium** $'000	**Other reserves** $'000	**Accumulated losses** $'000	**Total** $'000
Balance at 1 January 2010	4,000	114,539	510,388	(9,994)	618,933
Changes in equity for 2010:					
Shares issued under placing, net of issuance cost	126	15,505	–	–	15,631
Total comprehensive income for the year	–	–	–	(8,644)	(8,644)
Balance at 31 December 2010 and 1 January 2011	4,126	130,044	510,388	(18,638)	625,920
Changes in equity for 2011:					
Total comprehensive income for the year	–	–	–	(199,131)	(199,131)
Balance at 31 December 2011	4,126	130,044	510,388	(217,769)	426,789

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(B) DIVIDENDS

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

(C) SHARE CAPITAL

	2011		2010	
	Number of shares	**Amount $'000**	Number of shares	Amount $'000
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000,000**	**100,000**	10,000,000,000	100,000
Ordinary shares, issued and fully paid:				
At 1 January	**412,608,000**	**4,126**	400,000,000	4,000
Share placing and subscription	**–**	**–**	12,608,000	126
At 31 December	**412,608,000**	**4,126**	412,608,000	4,126

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(D) NATURE AND PURPOSE OF RESERVES

(i) Share premium

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

(ii) Other reserve

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

In addition, pursuant to the Group's reorganisation before its initial public offering, the ultimate controlling shareholder of the Group assigned to the Company the receivable balances due from group companies amounted to $513,388,000. The difference between the assigned receivable balances over the nominal value of $3,000,000 of the shares issued by the Company in exchange thereof was also recorded in "Other reserve".

(iii) Exchange reserves

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the PRC operation. The reserve is dealt with in accordance with the accounting policy as set out in note 1(r).

(iv) Distributable reserve

At 31 December 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Company was nil (2010: $111,406,000). The long-term secured bank loan of the Group is subject to certain covenants and the Group's PRC subsidiary, Daoyue, is required to obtain prior approval from the bank, before declaring any cash dividend or bonus during the repayment years from 2013 to 2027.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(E) CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing 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 debts (which includes accruals and other payables, amounts due to related parties and bank loans). Equity comprises all components of equity.

The debt-to-equity ratio of the Group at 31 December 2011 and 2010 is as follows:

	Note	**2011** **HK$'000**	2010 HK$'000
Current liabilities:			
Accruals and other payables	16	**420,755**	108,743
Amount due to a related company	23(c)	**1,300**	424
Bank loans		**584,712**	–
		1,006,767	109,167
Non-current liabilities:			
Amount due to the controlling shareholder of the Company	23(c)	**37,683**	–
Bank loans		**629,085**	448,210
Total debts		**1,673,535**	557,377
Total equity		**512,452**	696,220
Debt-to-equity ratio		**327%**	80%

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

(A) CREDIT RISK

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each sub-contractor for expressway construction. Individual credit evaluations are performed on all sub-contractors. These evaluations focus on the sub-contractor's past history of construction work performance and current ability to fulfil the contract, and take into account information specific to the sub-contractor as well as pertaining to the economic environment in which the sub-contractor operates. The Group does not collect collateral in respect of the prepayments and other receivables. At 31 December 2011, contract guarantee deposits of $5,635,000 and contract retention deposits of $110,831,000 recognised in accruals and other payables (2010: $12,776,000 and $46,864,000 respectively) were received from independent sub-contractors. The Group also regularly monitors the construction progress.

(B) LIQUIDITY RISK

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(B) LIQUIDITY RISK (continued)

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

The Group

	Contractual undiscounted cash outflow						
	On demand $'000	Within 1 year $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount $'000
2011							
Accruals and other payables	–	180,406	110,831	–	–	291,237	291,237
Amount due a related company	–	1,300	–	–	–	1,300	1,300
Term loan subject to repayment on demand clause: Scheduled repayments	–	39,540	621,540	–	–	661,080	584,712
Amount due to the controlling shareholder of the Company	–	–	–	37,683	–	37,683	37,683
Other bank loans	–	40,959	52,903	222,543	613,611	930,016	629,085
	–	262,205	785,274	260,226	613,611	1,912,316	1,544,017
Adjustment to disclose cash flows on term loan based on lender's right to demand repayment	600,000	(39,540)	(621,540)	–	–	(661,080)	
	600,000	222,665	163,734	260,226	613,611	1,251,236	

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(B) LIQUIDITY RISK (continued)

The Group (continued)

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

The Company

	2011						
	On demand $'000	**Within 1 year $'000**	**More than 1 year but less than 2 years $'000**	**More than 2 years but less than 5 years $'000**	**More than 5 years $'000**	**Total $'000**	**Carrying amount $'000**
Accruals and other payables	**–**	**3,902**	**–**	**–**	**–**	**3,902**	**3,902**

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(C) INTEREST RATE RISK

The Group's interest rates risk arises primarily from cash at bank and bank borrowings issued at variable rates that expose the Group to cash flow interest rate risk. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements.

The Group does not account for any fixed rate financial liabilities at fair value through profit or loss. The Group hedges its debt obligations through the use of interest rate swaps. The Group's interest rate profile as monitored by management is set out in (ii) below:

(i) Hedging

An interest rate swap, denominated in Hong Kong dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure consistent with the Group's policy. At 31 December 2011, the Group had an interest rate swap with a notional contract amount of $600,000,000 (2010: $nil).

The swap matures over the next two years matching the maturity of the related bank loan and has fixed swap rates of 0.68%. The net fair value of the swap entered into by the Group at 31 December 2011 was $335,000 (2010: $nil). The amount is recognised as a derivative financial instrument in the consolidated statement of financial position.

(ii) Interest rate profile

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

	The Group			
	2011		2010	
	Effective interest rate %	**Amount $'000**	Effective interest rate %	Amount $'000
Variable rate instruments:				
Cash at bank	**0.190**	**158,974**	0.550	157,224
Bank loans	**6.345**	**(629,085)**	5.760	(448,210)
		(470,111)		(290,986)

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(C) INTEREST RATE RISK (continued)

(ii) Interest rate profile (continued)

	The Company			
	2011		2010	
	Effective interest rate	**Amount**	Effective interest rate	Amount
	%	**$'000**	%	$'000
Variable rate instruments:				
Cash at bank	**0.0102**	**1,154**	2.7729	7,441

(iii) Sensitivity analysis

At 31 December 2011, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss for the year and accumulated losses by approximately $1,175,278 (2010: $393,060).

The sensitivity analysis above indicates the instantaneous change in the Group's loss for the year (and accumulated loss) that would arise assuming that the change in interest rates had occurred at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's loss for the year (and accumulated loss) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2010.

(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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(E) 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.

At 31 December 2011, the Group is exposed to currency risk primarily through one of the bank loans of Daoyue that are denominated in HKD, with carrying amount of $584,712,000 (2010: $nil).

At 31 December 2011, assuming all other risk variables remained constant, a 1% strengthening/(weakening) of the RMB against HKD would have increase/(decrease) equity and net profit by the amount of $4,385,000 (2010: $nil). Results of the analysis represent an aggregation of the instantaneous effects on Daoyue' profit after tax and equity measured in the its functional currency, translated into HKD at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2010.

(F) FAIR VALUES

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

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

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(F) FAIR VALUES (continued)

	The Group	
	2011	2010
	$'000	$'000
	Level 1	
Derivative financial instrument:		
Interest rate swap	**335**	–

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

The amounts due to related companies as at 31 December 2010 and 2011 have no fixed terms of repayment. Given these terms, it is not meaningful to disclose their fair values.

All other financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2010 and 2011.

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

21 COMMITMENTS

(A) OPERATING LEASE COMMITMENTS

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Within 1 year	**804**	936	**802**	745
After 1 year but within 5 years	**875**	476	**875**	476
	1,679	1,412	**1,677**	1,221

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

21 COMMITMENTS (continued)

(B) CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	The Group	
	2011	2010
	$'000	$'000
Contracted for	**92,765**	527,119
Authorised but not contracted for	**–**	566,909

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

22 CONTINGENT LIABILITIES

FINANCIAL GUARANTEES ISSUED

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

(a) a single guarantee to a bank in respect of a bank loan granted to a wholly owned subsidiary; and

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

As at the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued is the total bank loans by the subsidiary of $1,213,797,000 (2010: $448,210,000).

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

23 MATERIAL RELATED PARTY TRANSACTIONS

(A) During the year ended 31 December 2011, the directors are of the view that the following companies are related parties of the Group:

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

23 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Non recurring transactions				
Expense paid on behalf of the Group by a related company				
– Shenzhen Huayu Investment & Development (Group) Co., Ltd.	**836**	571	**–**	–
Advance from the controlling shareholder of the Company	**37,683**	–	**12,114**	–

(C) BALANCES WITH RELATED PARTIES

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

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Amount due to related parties				
– Shenzhen Huayu Investment & Development (Group) Co., Ltd.	**(1,300)**	(424)	**–**	–
– Controlling shareholder of the Company	**(37,683)**	–	**(12,114)**	–
	(38,683)	(424)	**(12,114)**	–

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

23 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(D) KEY MANAGEMENT PERSONNEL REMUNERATION

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

	The Group	
	2011	2010
	$'000	$'000
Short-term employee benefits	**8,945**	7,392

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

24 IMMEDIATE AND ULTIMATE CONTROLLING COMPANY

At 31 December 2011, the directors consider the immediate parent and ultimate controlling party of the Group to be Velocity International Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

25 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and interpretations and one new standard which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments Disclosures* – *Transfers of financial assets:*	1 July 2011
Amendments to HKAS 12, *Income taxes* – *Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements* – *Presentation of items of other comprehensive income*	1 July 2012
HKFRS 9, *Financial instruments*	1 January 2013
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013

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