



WAH NAM INTERNATIONAL HOLDINGS LIMITED

華南投資控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 0159)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2006

The board (the “Board”) of directors (the “Directors”) of Wah Nam International Holdings Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2006 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2006

	<i>Notes</i>	2006 HK\$'000	2005 <i>HK\$'000</i>
Gross toll revenue	5	15,213	29,423
Business tax		(760)	(1,471)
		<hr/>	<hr/>
Net toll revenue		14,453	27,952
Direct costs		(7,545)	(10,010)
		<hr/>	<hr/>
		6,908	17,942
Other income		1,147	699
Administrative expenses		(2,563)	(3,633)
Finance costs		(481)	(755)
		<hr/>	<hr/>
Profit before taxation	7	5,011	14,253
Income tax expense	8	(1,142)	(2,379)
		<hr/>	<hr/>
Profit for the year		<u>3,869</u>	<u>11,874</u>
Attributable to:			
Equity holders of the Company		1,000	5,835
Minority interests		2,869	6,039
		<hr/>	<hr/>
		<u>3,869</u>	<u>11,874</u>
Earnings per share	9		
– Basic (cents)		<u>0.17</u>	<u>1.14</u>
– Diluted (cents)		<u>N/A</u>	<u>1.02</u>

CONSOLIDATED BALANCE SHEET

At 31st December, 2006

	Note	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Toll road operation rights		81,414	82,820
Property, plant and equipment		459	598
Interests in infrastructure joint ventures		–	–
Amounts due from minority shareholders of a subsidiary		48,872	12,180
Deferred tax assets		4,048	4,109
		<u>134,793</u>	<u>99,707</u>
Current assets			
Other receivables, deposits and prepayments		237	1,991
Amounts due from minority shareholders of a subsidiary		–	36,836
Bank balances and cash		9,678	17,865
		<u>9,915</u>	<u>56,692</u>
Current liabilities			
Other payables and accrued charges		1,746	1,708
Tax liabilities		215	1,092
		<u>1,961</u>	<u>2,800</u>
Net current assets		<u>7,954</u>	<u>53,892</u>
Total assets less current liabilities		<u>142,747</u>	<u>153,599</u>
Capital and reserves			
Share capital	10	59,484	59,484
Reserves		691	(6,169)
Equity attributable to equity holders of the Company		<u>60,175</u>	<u>53,315</u>
Minority interests		<u>81,236</u>	<u>89,299</u>
		<u>141,411</u>	<u>142,614</u>
Non-current liabilities			
Amount due to ultimate holding company		–	6,695
Amount due to a director		1,336	4,290
		<u>1,336</u>	<u>10,985</u>
		<u>142,747</u>	<u>153,599</u>

NOTES TO THE FINANCIAL STATEMENTS:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values upon initial recognition.

2. EXTRACT FROM THE INDEPENDENT AUDITOR’S REPORT

The following paragraphs are extracted from the independent auditor’s report that included in the annual report.

“Basis for qualified opinion

Included in the consolidated balance sheet as at 31st December, 2006 are toll road operation rights stated at an aggregate carrying amount of approximately HK\$81,414,000 held by Hangzhou Huanan Engineering Development Co. Ltd. (“HHED”), a subsidiary of the Company. As explained in note 5 to the consolidated financial statements, the directors of the Company obtained an independent valuation of these toll road operation rights which indicated that no impairment loss is required in respect of the toll road operation rights. The valuation carried out by valuer was based on the assumption that the Group will receive a daily compensation of RMB50,000 from Hangzhou City Government, the People’s Republic of China (“Government”) in future years. Other than the amount already received during the year ended 31st December, 2006 as detailed below, the Group is still negotiating with the Government as to the remaining amount of compensation to be received by the Group for the year ended 31st December, 2006, details of which are set out in notes 7 and 15 to the consolidated financial statements. The compensation recognized by the Group for the year ended 31st December, 2006 of HK\$7,804,000 represents the total amount of the compensation received from the Government during the year. In the absence of an agreement between the Group and the Government, as to the final amount of daily compensation for the year ended 31st December, 2006 and thereafter, we were unable to assess whether any impairment loss against the toll road operation rights is required.

In addition, included in the consolidated balance sheet as at 31st December, 2006 are deferred tax assets with an aggregate carrying amount of approximately HK\$4,048,000 as described in note 25 to the consolidated financial statements. The recoverability of these deferred tax assets is dependent on the ability of HHED to generate future taxable profits which in turn, is dependent on the amount of daily compensation to be received from the Government. Because of the matter explained in the preceding paragraph, we were unable to assess whether any impairment against these deferred tax assets is required.

Included in the consolidated balance sheet as at 31st December, 2006 are amounts due from minority shareholders of HHED with an aggregate carrying amount of approximately HK\$48,872,000. As explained in note 19 to the consolidated financial statements, such amount may be settled through dividends to be declared by HHED at the discretion of the directors of HHED. As stated above, the ability of HHED to declare dividends is dependent on the profitability of HHED which in turn, is dependent on the amount of daily compensation received from the Government. We were unable to obtain financial information regarding the minority shareholders to assess their ability to repay these amounts in the event that HHED is unable to declare sufficient dividends to realise the amounts due from the minority shareholders. Against this background, we were unable to assess whether allowance is required in respect of the amounts due from these minority shareholders.

There were no alternative audit procedures that we could adopt to satisfy ourselves that the carrying amounts in respect of the toll road operation rights, deferred tax assets and amounts due from minority shareholders of HHED are free from material misstatement. Any adjustment found to be necessary to these amounts would affect the net assets of the Group as at 31st December, 2006 and its profit for the year then ended.

Qualified opinion arising from limitation of audit scope

In our opinion except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters set out in the basis of qualified opinion above, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2006 and of the Group's profit 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."

3. BASIS OF VALUATION OF KEY ASSETS

As at 31st December, 2006, the toll road operation rights was stated at an aggregate carrying value of \$81,414,000. The Directors had asked an independent qualified professional valuer to give an opinion on the value in use of the toll road operation rights as at 31st December, 2006. Given the valuation report, the value in use of the toll road operation rights was valued at HK\$125,683,000. Hence, no impairment loss was made. The major assumption made by the valuer is that the government compensation would remain at RMB50,000 per day (approximately HK\$18 million per year) for the remaining useful life of the toll road operation rights. This assumption is based on, inter alia,:

- the traffic track record of the toll road from 2004 to 2006;
- no document nor information in relation to the change of the compensation policy, nor any confirmation on the discontinuity of such compensation has been received as of the valuation date; and
- legal documents from the Peoples' Republic of China ("PRC") government on the approval of the toll road operation and toll rates being charged.

At the discretion of the directors of HHED, the amounts due from minority shareholders of HHED may be settled by future dividends to be declared by HHED. The Group had prepared an estimated future results of HHED based on the discounted cash flow forecast prepared by the valuer to assess the profitability of HHED. Based on the assumption as mentioned above, HHED will remain profitable and hence, no recoverability problem on the amounts due from minority shareholders or the deferred tax assets was found.

Since, up to the approval date of this financial statements, HHED still cannot reach an agreement with Hangzhou City government on the amount of compensation, the Group had obtained legal opinion from a PRC lawyer. As advised by the lawyer, civil petition (「民事起訴狀」) was submitted to the PRC court against the Hangzhou City government for judgement on the government compensation.

In light of the above information provided by the valuer, and the measures taken to recover the government compensation, the directors are of the view that both toll road operation rights and amounts due from minority shareholders of HHED, and corresponding deferred tax assets were fairly stated as at 31st December, 2006.

4. APPLICATION OF NEW AND REVISED HKFRSs

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs"), issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

5. GROSS TOLL REVENUE

The gross toll revenue represents the amounts of toll receipts generated from the toll road and compensation received from Hangzhou City government for the loss of toll receipts from automobiles registered in Hangzhou City.

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Toll receipts	7,409	12,076
Hangzhou City government compensation	7,804	17,347
	<u>15,213</u>	<u>29,423</u>

6. SEGMENTAL INFORMATION

The Group is engaged solely in the management and operation of a toll road in the PRC. The identifiable assets and liabilities of the Group are mainly located in the PRC. Accordingly, no analysis by business or geographical segments is presented.

7. PROFIT BEFORE TAXATION

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of toll road operation rights (included in direct costs)	4,603	4,485
Auditors' remuneration	420	381
Depreciation of property, plant and equipment	161	193
Repairs and renovation costs	226	2,665
Staff costs:		
Directors' emoluments	310	300
Retirement benefits scheme contributions	561	297
Other staff costs	1,951	3,128
Total staff costs	2,822	3,725
Operating lease rentals in respect of office premises	34	257
Interest income	(214)	(132)
Imputed interest income on amounts due from minority shareholders of a subsidiary	(907)	(567)

8. INCOME TAX EXPENSE

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current year:		
Income tax charge	872	2,877
Underprovision in prior years	51	–
	<u>923</u>	<u>2,877</u>
Deferred tax:		
Current year charge to consolidated income statement	219	213
Tax effect of cessation of concessionary rate	–	(711)
	<u>219</u>	<u>(498)</u>
	<u><u>1,142</u></u>	<u><u>2,379</u></u>

Income tax charge represents the PRC enterprise income tax paid or payable during the year. Enterprise income tax in the PRC has been provided at the prevailing rate of 18% (2005: 18%) on the estimated assessable profit applicable to the Company's subsidiary established in the PRC.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Earnings for the purpose of basic earnings per share	<u>1,000</u>	5,835
Effect of dilutive potential ordinary shares:		
Interest on convertible notes		<u>643</u>
Earnings for the purpose of diluted earnings per share		<u>6,478</u>
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>594,838</u>	511,002
Effect of dilutive potential ordinary shares:		
Convertible notes		<u>126,904</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<u>637,906</u>

The Company has no dilutive potential ordinary shares for the year ended 31st December, 2006.

10. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	<u>800,000</u>	<u>80,000</u>
Issued and fully paid:		
At 1st January, 2005	474,838	47,484
Exercise of convertible notes	<u>120,000</u>	<u>12,000</u>
At 31st December, 2005 and 31st December, 2006	<u>594,838</u>	<u>59,484</u>

RESULTS

For the year ended 31st December, 2006, the Group recorded audited consolidated turnover of HK\$15,213,000, representing a decrease of 48% over the last year's HK\$29,423,000 whilst the profit attributable to equity holders of the Company was HK\$1,000,000, representing a decrease of 83% over the last year's HK\$5,835,000. The decrease in both turnover and profit attributable to equity holders of the Company was attributable to the decrease in compensation granted by the Hangzhou City government as compared to the year 2005 and diversion of Hangzhou non-registered automobiles to Hang Qian Toll Road (「杭千公路」) (“Hang Qian”) and to the adjacent alternate roads of our Hangzhou Toll Road.

FINAL DIVIDEND

The Board does not recommend the payment of a dividend.

BUSINESS REVIEW

The intra-city toll free collection policy launched by the Hangzhou City government to our Hangzhou Toll Road that all Hangzhou registered automobiles were exempted from toll payment and that the daily compensation of RMB50,000 granted to the Group by the Hangzhou City government in compensating the descent of such toll receipt since the year 2004. The Group had renewed the agreement with the Hangzhou City government for continuously granting the daily compensation of RMB50,000 for the year 2005. However, the Group and the Hangzhou City government have not yet finalised the renewal agreement for the year 2006 as agreement on reasonable amount of compensation could not be reached. The Group had obtained legal opinion from a PRC lawyer. As advised by the lawyer, the civil petition (「民事起訴狀」) was submitted to the PRC court against the Hangzhou City government for judgement on the government compensation. Notwithstanding, an aggregate amount of RMB8,000,000 have been received from the Hangzhou City government as partial payment of compensation during the year under review.

Newly constructed expressway – Hang Qian launched by the end of year 2005 and its fee collection station – Zhi Pu Lu (「之蒲路」) launched by the end of year 2006, have further intensified toll road competition in Hangzhou City and would have diversion effect on the toll revenue of our Hangzhou Toll Road. The Company has adopted preventive measures to keep monitor its traffic flow and its effect on the profitability of our Hangzhou Toll Road.

In view of the above, the Group carried out certain remedial measures, including cost control on reducing the repair and maintenance expenses to HK\$226,000 representing a decrease of 92% over the last year's HK\$2,665,000, to keep abreast of the profitability of the Group. Furthermore, the streamlining measures and resources allocation have been taken for minimizing the administration costs of the Group in order to achieve the Group's objective on cost-saving.

Highlights of revenue comparison were:

Joint Venture in Hangzhou

Hangzhou Toll Road

Average daily toll traffic volume in 2006 was approximately 6,400 vehicles (2005: 8,200 vehicles), representing a 22% decrease over the previous year. Weighted average toll fare per vehicle for non-registered vehicles in 2006 was approximately RMB14.75 (2005: RMB13.81), representing a 7% increase over the previous year.

Joint Ventures in Shanxi

Shanxi-Xiangyi Toll Road and Bridge

Average daily toll traffic volume in 2006 was approximately 3,700 vehicles (2005: 5,100 vehicles), representing a 27% decrease over the previous year. Weighted average toll fare per vehicle in 2006 was approximately RMB13.39 (2005: RMB13.52), no significant changes as compared to the previous year.

Shanxi-Linhong Toll Road and Bridge

Average daily toll traffic volume in 2006 was approximately 9,800 vehicles (2005: 10,500 vehicles), representing a 7% decrease over the previous year. Weighted average toll fare per vehicle in 2006 was approximately RMB5.91 (2005: RMB5.21), representing a 13% increase over the previous year.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2006, the Group's cash on hand and in bank was in the sum of HK\$9,678,000 (2005: HK\$17,865,000). The total assets and total liabilities of the Group were HK\$144,708,000 (2005: HK\$156,399,000) and HK\$3,297,000 (2005: HK\$13,785,000) respectively. The equity attributable to equity holders of the Company was HK\$60,175,000 (2005: HK\$53,315,000). The Group's current ratio was 5.06 (2005: 20.2).

The gearing ratio (total liabilities/total assets) as at 31st December, 2006 was 2% (2005: 9%)

In addition to the above, Leading Highway Limited, has undertaken to make financial accommodation available for the Group's working capital requirements.

The total capital expenditure during the year amounted to HK\$2,000 (2005: HK\$14,000).

As at 31st December, 2006, the Group had no significant contingent liabilities and has minimal exposure to foreign exchange risk since the Group's revenue and expenditures were denominated in Hong Kong dollar and in Renminbi.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2006, the Group has 42 employees (2005: 50). The pay levels of employees were commensurate with their responsibilities, performance and contribution to the Group and reflected the prevailing industry practice. To provide incentives and rewards to the employees, the Company adopted a share option scheme in August 2002.

PROSPECTS

Looking forward, as Hangzhou City is one of the well-developed cities in the PRC owing to its strong economic growth and comprehensive city planning, increasing traffic volume in the Hangzhou City and increasing demand for quality road passage are expected which should augur well for the future of our Hangzhou Toll Road.

Furthermore, an upgrading of the computerized toll collection monitoring system of our Hangzhou Toll Road is being planned to strengthen the Group's internal control system. This upgraded computerized system should enhance the security and monitoring of toll collection procedures.

The Group will continue to maintain its prudent policy and cost saving measures to ensure the effectiveness and efficiency of the toll road operations of the Group. The Group will continuously strike for a balance between smooth and conscious road maintenance and cost saving to maintain the profitability of the toll operation as well.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed shares of the Company.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board had adopted its own code on corporate governance practices which incorporates all code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "CGP Code").

None of the Directors of the Company is aware of information that would reasonably indicate the Company is not or was not for any part of the year under review, in compliance with the CGP Code and its own code except for the deviations from the following provisions of the CGP Code:

1. Code provision A.2.1, the role of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. One of the executive Directors assumes the role of CEO. The present structure is more suitable to the Company because it can promote the efficient formulation and implementation of the Company's strategy;
2. Code provision A.4.1 stipulates that non-executive director should be appointed for a specific term. However, none of the existing non-executive Directors (including independent non-executive) is appointed for a specific term since all non-executive Directors of the Company (including independent non-executive) are subject to retirement provisions under the Company's Bye-laws. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CGP Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company had adopted a code of conduct for securities transactions by directors on no less exacting than the terms and required standard contained in the Model Code for Securities Transactions by Directors set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all the Directors, the Company had obtained confirmation from all Directors that they have complied with the required standard set out in the Model Code and the code of conduct for securities transactions by directors adopted by the Company.

ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") of the Company will be held at Garden Room A & B, 2/F., Hotel Nikko Hong Kong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on 25th April, 2007 at 2:30 p.m.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23rd April, 2007 (Monday) to 25th April, 2007 (Wednesday), both days inclusive, during which period no transfer of shares can be registered. In order to qualify for attending and voting at the above AGM or any adjournment thereof, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's Branch Share Registrar in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 20th April, 2007.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31st December, 2006, including the accounting principles and practices adopted by the Group.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This result announcement is published on the website of Stock Exchange. The 2006 Annual Report and Notice of AGM of the Company will be dispatched to the shareholders of the Company as well as published on the website of the Stock Exchange in due course.

BOARD COMPOSITION

As at the date of this announcement, the Board comprises Mr. Cheng Yung Pun, Mr. Yu Sui Chuen, Ms. Cheng Wing See, Nathalie as executive Directors, Mr. Luo ZhiJian as non-executive Director and Mr. Au-Yeung Tsan Pong, Davie, Mr. Fung Ka Choi and Mr. Wong Chu Fung as independent non-executive Directors.

By Order of the Board
Cheng Yung Pun
Chairman

Hong Kong, 15th March, 2007

* *for identification purpose only*