THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

The circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Wah Nam International Holdings Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

WAH NAM INTERNATIONAL HOLDINGS LIMITED

華 南 投 資 控 股 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock code: 159)

VERY SUBSTANTIAL ACQUISITION

Financial adviser to the Company

OSK Asia Capital Limited

A letter from the board of directors of Wah Nam International Holdings Limited is set out on pages 3 to 13 of this circular.

A notice convening a special general meeting of Wah Nam International Holdings Limited to be held at Garden Room A & B, 2/F., Hotel Nikko Hong Kong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on 15 October 2007, Monday, at 2:30 p.m. is set out on pages 104 to 105 of this circular. A form of proxy for use at the special general meeting is enclosed. Whether or not you intend to attend and vote at the special general meeting or any adjourned meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible, but in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meetings. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjourned meeting should you so wish.

27 September 2007

* *For identification purpose only*

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In this circular, unless the context requires otherwise, the following terms have the meanings as set out below:

"Acquisition"	the acquisition of the entire issued share capital of Perryville under the S&P Agreement
"Airport Shuttle"	Airport Shuttle Services Limited, a company incorporated in Hong Kong and beneficially wholly-owned by Perryville
"Announcement"	the announcement of the Company dated 29 June 2007 in respect of the Acquisition
"associate(s)"	has the meaning as ascribed to it under the Listing Rules
"Board"	the board of the Directors
"Bye-laws"	the bye-laws of the Company
"Company"	Wah Nam International Holdings Limited, a company incorporated in Bermuda with limited liability, and the Shares of which are listed on the main board of the Stock Exchange
"Conversion Shares"	new Shares falling to be issued by the Company upon exercise of the Convertible Note
"Convertible Note"	the convertible note with a principal amount of HK$120 million to be issued by the Company to the Vendor on completion of the S&P Agreement
"Directors"	directors of the Company
"Enlarged Group"	the Company and its subsidiaries after completion of the S&P Agreement, including Perryville and the relevant members of the Perryville Group
"Group"	the Company and its subsidiaries
"HKFRS"	Hong Kong Financial Reporting Standards
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region of the People's Republic of China
"Latest Practicable Date"	24 September 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Parklane Limousine"	Parklane Limousine Service Limited, a company incorporated in Hong Kong and beneficially wholly-owned by Perryville

"Perryville"	Perryville Group Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially wholly-owned by the Vendor
"Perryville Group"	Perryville and its subsidiaries, namely Parklane Limousine and Airport Shuttle
"PRC"	People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"S&P Agreement"	the conditional sale and purchase agreement entered into between the Company and the Vendor in respect of the Acquisition
"SFC"	the Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)
"SGM"	the special general meeting to be convened and held by the Company for the purposes of seeking approval from the Shareholders for the Acquisition to be held at Garden Room A & B, 2/F., Hotel Nikko Hong Kong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on 15 October 2007, Monday, at 2:30 p.m.
"Share(s)"	the ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholders"	holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Code on Takeovers and Mergers
"Vendor"	Parklane International Holdings Limited, a limited liability company incorporated in the British Virgin Islands, the vendor under the S&P Agreement, which is wholly-owned by Mr Leung Chi Yan

WAH NAM INTERNATIONAL HOLDINGS LIMITED

華南投資控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 159)

Directors:

Executive Directors:	*Registered Office:*
Cheng Yung Pun *(Chairman)*	Clarendon House
Yu Sui Chuen	2 Church Street
Cheng Wing See, Nathalie	Hamilton HM 11
	Bermuda
Non-Executive Director:	*Head office and principal place of business:*
Luo ZhiJian	Room 902, 9th Floor
Independent Non-Executive Directors:	East Ocean Centre
Au-Yeung Tsan Pong, Davie	98 Granville Road
Fung Ka Choi	Tsimshatsui East
Wong Chu Fung	Kowloon, Hong Kong

27 September 2007

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION

INTRODUCTION

On 13 June 2007, the Company and the Vendor entered into the S&P Agreement pursuant to which the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the entire issued share capital of Perryville subject to the terms and conditions of the S&P Agreement. The consideration for the Acquisition is HK$170,000,000. The consideration will be settled as to HK$50 million in cash and as to the balance of HK$120 million by the issue of the Convertible Note. The Convertible Note may be converted, in whole or in part, into new Shares at the conversion price of HK$0.42, subject to usual adjustment provisions. If the Convertible Note is converted in full at the initial conversion price, 285,714,285 Conversion Shares would fall to be issued upon conversion of the Convertible Note in full.

The Perryville Group is principally engaged in the provision of limousine and airport shuttle transportation services in Hong Kong. The Directors consider that the Acquisition will allow the Group to diversify its income and business risks by investing in this section of the transportation services market. The Directors (including the independent non-executive Directors) consider that the terms of the S&P Agreement are fair and reasonable and

* *For identification purpose only*

the S&P Agreement is on normal commercial terms and the entering into of the S&P Agreement and the Acquisition are in the best interests of the Company and the Shareholders as a whole.

The Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules and therefore is subject to approval by the Shareholders at the SGM under Rule 14.49 of the Listing Rules. As at the Latest Practicable Date, neither the Vendor nor any of its associates held any Shares. To the best of the Company's knowledge, information and belief, having made all reasonable enquiry, it is not aware of any Shareholders who have a material interest in the S&P Agreement. Accordingly, no Shareholders are required to abstain from voting in respect of the resolution to approve the S&P Agreement and the Acquisition at the SGM.

The purpose of this circular is (i) to give Shareholders details of the Acquisition and the Perryville Group with a view to facilitating the Shareholders to decide how to vote in respect of the resolution and (ii) to give Shareholder a notice of SGM at which the resolution will be proposed to consider and, if thought fit, approve the Acquisition, the S&P Agreement and the transactions contemplated thereunder at the SGM.

THE S&P AGREEMENT

Date and parties

Date:	13 June 2007 (after trading hours)
Parties:	the Company, as purchaser
	the Vendor, as vendor
	The Vendor is the beneficial owner of the entire issued share capital of Perryville. To the best knowledge, information and belief of the Directors, and having made all reasonable enquiries, (i) the Vendor is an investment holding company and (ii) the Vendor and its ultimate beneficial shareholder are third parties independent of the Company and the connected persons of the Company (including Mr Cheng Yung Pun, the ultimate controlling Shareholder of the Company) and there was no transaction (for the purposes of Chapter 14 of the Listing Rules) or any other relationship with the Company or its connected persons in the 12 months prior to the date of the S&P Agreement.

The Acquisition

Pursuant to the S&P Agreement, the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the entire issued share capital of Perryville subject to the terms and conditions of the S&P Agreement.

Consideration

The Company paid a deposit of HK$30 million in cash to the Vendor on 14 June 2007. Upon completion of the S&P Agreement, the Company shall pay a further HK$20 million in cash and issue the Convertible Note with a principal amount of HK$120,000,000 to the Vendor.

The payment of the above cash deposit was, and the payment of the balance of the cash consideration will, be financed by the Group's internal resources.

The consideration was agreed after arm's length negotiation between the Company and the Vendor, in particular with reference to the profit record of the Perryville Group for the two years ended 31 March 2007 and prospects of the transportation services in connection with the tourist industry in Hong Kong. Based on the combined net profit of the Perryville Group for the year ended 31 March 2007 as set out in Appendix II to this circular, the amount of consideration represents a historic price-to-earnings ratio of approximately 11.9 times. The Directors (including the independent non-executive Directors) understand that the Perryville Group should not be valued as an asset based company but rather as a service company, the success of which relies on the ability of the Perryville Group to successfully implement its business strategies, to maintain good relationships with hotels, guesthouses, service apartments etc. in Hong Kong and to provide quality services to them.

Conditions precedent

Completion of the S&P Agreement shall be subject to the satisfaction or waiver (where applicable) of the following conditions precedent:

1. the passing of a resolution by the Shareholders permitted to vote under the Listing Rules at a special general meeting approving the increase in the authorised share capital of the Company to an amount sufficient for the issue and allotment of the new Shares falling to be issued upon conversion of the Convertible Note in accordance with the relevant requirements under the Listing Rules;

2. the passing of a resolution by the Shareholders permitted to vote under the Listing Rules at the SGM approving the S&P Agreement and the underlying transactions, including the Acquisition, the issue of the Convertible Note and the issue of the Conversion Shares upon exercise of the conversion rights under the Convertible Note in accordance with the relevant requirements under the Listing Rules;

3. the obtaining of approval from the Stock Exchange for the listing of and permission to deal in all of the Shares falling to be issued upon conversion of the Convertible Note (either unconditionally or subject to customary conditions) and such approval not being revoked prior to completion of the S&P Agreement;

4. the representations, warranties and undertakings given by the Vendor pursuant to the S&P Agreement remaining true and accurate and not misleading in any material respect as of the date of completion of the S&P Agreement and at any time during the period between the date of the S&P Agreement and the completion date of the S&P Agreement by reference to the facts and circumstances then subsisting;

5. the Vendor having satisfied all its relevant undertakings and obligations under the S&P Agreement; and

6. all necessary consents being granted by third parties (including governmental or official authorities) and there being no statute, regulation or decision which would prohibit, restrict or materially delay the Acquisition or operation of any member of the Perryville Group after completion of the S&P Agreement having been proposed, enacted or taken by any governmental or official authority.

Completion of the S&P Agreement shall take place on the second business day after all the above conditions are satisfied or waived by the Company (in respect of conditions 4 and 5 only) (or such later date as the Company and the Vendor may agree in writing).

In the event that any or all of the conditions stated above are not fulfilled (or waived), on or before 31 October 2007, the Vendor shall forthwith refund the deposit of HK$30 million to the Company without any interest and the Company shall not be bound to continue with the Acquisition. In the event that all of the conditions stated above have been fulfilled prior to 31 October 2007 and the Company elects not to proceed to completion of the S&P Agreement, the deposit of HK$30 million shall be retained by the Vendor.

The increase in the authorised share capital of the Company from HK$80,000,000 comprising 800,000,000 Shares to HK$200,000,000 comprising 2,000,000,000 Shares was approved by the Shareholders at a special general meeting of the Company held on 18 September 2007. Accordingly, the Company will have sufficient authorised share capital to cover all Shares which may fall to be issued upon full conversion of the Convertible Note based on the initial conversion price and the shareholding structure of the Company as at the Latest Practicable Date. Condition number 1 above has therefore been duly satisfied. Please refer to the announcement of the Company dated 29 June 2007 and the circular of the Company dated 31 August 2007 for details.

The Convertible Note

The principal terms of the Convertible Note is summarised below:

Maturity date/ redemption:	The date falling on the fifth anniversary of the issue of the Convertible Note. Upon maturity, any outstanding principal amount of the Convertible Note should be redeemed in cash at their principal value. The Company does not have a right to redeem the Convertible Note prior to the maturity date. The Convertible Note confers on their holder(s) a right to require the Company to redeem the Convertible Note together with all accrued interest at any time prior to the maturity date if trading of the Shares has been suspended from trading on the Stock Exchange consecutively for more than 20 trading days. Further the holder(s) of the Convertible Note has the right to give notice to the Company should any event of default occurs, upon which the principal amount of the Convertible Note then outstanding shall be payable.
Interest:	The Convertible Note shall bear interest at 2% per annum payable yearly in arrears.
Transferability:	The Convertible Note will not be listed on any stock exchange but can be assigned or transferred in whole or in part subject to the terms thereof.
Conversion:	The Convertible Note may be converted, in whole or in part, into new Shares at the conversion price of HK$0.42 per Share, subject to usual adjustment provisions in respect of the occurrence of various adjusting events, such as share consolidation, share sub-division, share re-classification, capitalisation issue, capital distribution, rights issue or other similar events, or issue of new securities carrying rights to convert into, exchange for or subscribe for any new Shares for cash or other forms of consideration where the total effective consideration per Share receivable for such securities is less than 95% of the average closing price per Share for the 5 trading days immediately preceding the relevant announcement date, in whole or in part at any time after issue of the Convertible Note up to the date which is the seventh business day preceeding the fifth anniversary of the issue of the Convertible Note. Every adjustment to the conversion price shall be certified in writing by an approved merchant bank. Whenever the conversion price is adjusted, the Company shall as soon as possible but not later than two business days after the relevant adjustment has been determined give notice of the same to the holder of the Convertible Note. Pursuant to the terms and conditions of the Convertible Note, no conversion can take place if immediately after conversion (i) the Company will not be able to meet the minimum public float requirement under the Listing Rules from time

to time or (ii) the holder of the Convertible Note together with the parties acting in concert with it will hold or control such amount of the Company's voting rights at general meetings as may trigger a mandatory general offer under the Takeovers Code (whether or not a waiver of the mandatory general offer obligation has been granted). Accordingly, the issue of the Conversion Shares will not result in a change in control of the Company.

285,714,285 new Conversion Shares may fall to be issued upon conversion of the Convertible Note in full based on the initial conversion price, representing approximately 40% of the existing number of Shares in issue and approximately 28.6% of the thereby enlarged number of Shares. The Conversion Shares shall rank pari passu in all respects with the then Shares in issue. Please refer to the paragraph headed "Shareholding in the Company" for the shareholding percentages that the Conversion Shares represent under various illustrative scenarios. The Company will make an application seeking the Stock Exchange's approval for the listing of, and permission to deal in, the Conversion Shares.

The initial conversion price of HK$0.42 per Conversion Share represents:

- a discount of approximately 39% to the closing price of HK$0.69 per Share as quoted on the Stock Exchange on 13 June 2007 (being the last trading day immediately prior to the suspension of trading in the Shares on 14 June 2007);
- a discount of approximately 38.4% to the average closing price of HK$0.682 per Share for the 5 consecutive trading days up to and including 13 June 2007;
- a discount of approximately 40.5% to the average closing price of HK$0.706 per Share for the 10 consecutive trading days up to and including 13 June 2007;
- a discount of approximately 27.3% to the average closing price of approximately HK$0.578 per Share for the 30 consecutive trading days up to and including 13 June 2007;
- a discount of approximately 30% to the closing price of HK$0.6 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a discount of approximately 26.8% to the average closing price of HK$0.574 per Share for the 5 consecutive trading days up to and including Latest Practicable Date;
- a discount of approximately 22.8% to the average closing price of HK$0.544 per Share for the 10 consecutive trading days up to and including Latest Practicable Date;
- a discount of approximately 20.5% to the average closing price of approximately HK$0.528 per Share for the 30 consecutive trading days up to and including Latest Practicable Date;
- a premium of approximately 103.9% over the pro forma unaudited net assets (including minority interests) of the Enlarged Group per Share of approximately HK$0.206 (based on the pro forma consolidated balance sheet of the Enlarged Group set out in this circular and the existing number of Shares in issue as enlarged by the conversion of the Convertible Note in full);

- a premium of 20% over the placing price and subscription price of HK$0.35 per Share under the placing and top-up subscription announced by the Company in its announcement dated 15 May 2007; and

- a premium of 400% over the net asset value per Share of HK$0.084 (based on the audited consolidated balance sheet of the Company for the financial year ended 31 December 2006 and the existing number of Shares in issue).

The initial conversion price was agreed between the Company and Vendor after arm's length negotiation. The Directors (including the independent non-executive Directors) consider the initial conversion price to be fair and reasonable after having considered various factors including the premium of the initial conversion price over net asset value per Share, the price at which the Company placed Shares in May 2007, the price-to-earnings ratio of the initial conversion price to the earnings per Share for the year ended 31 December 2006 and the business prospects of the Group's existing business.

The Company undertakes to notify the Stock Exchange immediately upon it becoming aware of any dealings in the Convertible Note by any connected persons of the Company.

SHAREHOLDING IN THE COMPANY

As at the Latest Practicable Date, Leading Highway Limited held an approximately 62.4% interest in the Company.

The table below sets out the shareholding structure of the Company (after completion of the placing and top-up subscription as set out in the Company's announcement dated 15 May 2007) as of the Latest Practicable Date and the illustrative shareholding structure assuming that the Convertible Note was converted in full.

	As of the Latest Practicable Date and immediately after completion of the S&P Agreement but before conversion of any Convertible Note		**After conversion of the Convertible Note in full**	
	Number of Shares	**Percentage**	**Number of Shares**	**Percentage**
Cheng Yung Pun *(note)*	445,500,000	62.4%	445,500,000	44.6%
The Vendor	—	—	285,714,285	28.6%
Public Shareholders	268,237,652	37.6%	268,237,652	26.8%
	713,737,652	100.0%	999,451,937	100.0%

Note: These Shares are held by Leading Highway Limited, a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is wholly owned by Mr. Cheng Yung Pun, an executive Director.

INFORMATION ON THE GROUP

The major operations of the Group are carried out by a joint venture in Hangzhou, the PRC, and two joint ventures in Shanxi, the PRC (the Xiangyi joint venture and the Linhong joint venture), all of which are engaged in the management and operation of toll roads and bridges in the PRC.

As of 31 December 2006, the audited equity attributable to equity holders of the Company amounted to approximately HK$60.18 million. As of 30 June 2007, the unaudited equity attributable to equity holders of the Company amounted to approximately HK$99.09 million. The audited profit of the Group for each of the two years ended 31 December 2006 and 31 December 2005 and the unaudited (loss) profit of the Group for the six months ended 30 June 2007 and 30 June 2006 were as follows:

	Six months ended 30 June (Unaudited)		**Financial year ended 31 December (Audited)**	
	2007	**2006**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(Loss) profit before taxation	(1,600)	3,300	5,011	14,253
(Loss) profit after taxation	(1,712)	2,419	3,869	11,874
(Loss) profit attributable to equity holders of the Company	(1,392)	776	1,000	5,835

INFORMATION ON THE PERRYVILLE GROUP

The Perryville Group is principally engaged in the provision of limousine and airport shuttle transportation services in Hong Kong. Perryville is an investment holding company which holds two wholly-owned subsidiaries, Parklane Limousine and Airport Shuttle.

Parklane Limousine has been in operation since 1990 and provides limousine services between hotels and the Hong Kong International Airport. It currently has about 76 limousine cars, the majority of which are Mercedes Benz. Parklane Limousine presently offers limousine services to about 41 hotels in Hong Kong, has two counters at the Hong Kong International Airport to greet its customers and has about 120 employees (including drivers and other staff).

Airport Shuttle provides shuttle transportation services between hotels and the Hong Kong International Airport. It commenced operation in 1998 by offering the above services through its own fleet of about 25 buses. In 2005, it changed its business model. In June 2005, Airport Shuttle and Parklane Limousine, among others, entered into a sale and purchase agreement and collaboration agreement with Trans-Island Limousine Service Limited (an independent third party not connected with the Vendor or the Company). Under the sale and purchase agreement, Trans-Island Limousine Service Limited acquired Airport Shuttle's entire fleet of buses. Pursuant to the collaboration agreement which is for a term up to August 2010, Airport Shuttle and Parklane Limousine have appointed Trans-Island Limousine Service Limited as a sub-contractor to provide the airport shuttle services to and from the Hong Kong International Airport for hotels and travel agents which have contracted with Airport Shuttle and Parklane Limousine. Airport Shuttle and Parklane Limousine will pay fees to Trans-Island Limousine Service Limited based on the number of passengers to whom Trans-Island Limousine Service Limited provides shuttle services under the collaboration agreement. Airport Shuttle has granted an exclusive licence to Trans-Island Limousine Service Limited to use and display the logo and name of Airport Shuttle on the buses of Trans-Island Limousine Service Limited used for providing the shuttle services under the collaboration agreement. Airport Shuttle currently offers its services to about 31 hotels in Hong Kong and has about 25 staff. The collaboration agreement will not be affected as a result of the Acquisition.

As extracted from the accountants' report set out in Appendix II to this circular for the three years ended 31 March 2007, the audited combined revenue and combined profits before and after taxation of the Perryville Group (in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants) are set out below:

	For the year ended 31 March		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	88,001	83,305	76,074
Profit before taxation	16,204	4,954	531
Profit for the year	14,263	3,831	34

As at 31 March 2007, the audited combined net assets of the Perryville Group amounted to approximately HK$11 million.

Upon completion of the Acquisition, Perryville will become a wholly-owned subsidiary of the Company and the results of the Perryville Group will be consolidated in the financial statements of the Group. For further details, please refer to the accountants' report on the Perryville Group which is set out in Appendix II to this circular.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Assets, liabilities and net assets

The Group had unaudited consolidated total assets as at 30 June 2007 of approximately HK$179.6 million. As shown in the section headed "Financial information on the Enlarged Group" in Appendix III to this circular, had completion of the Acquisition been taken place on 30 June 2007, the pro forma total assets of the Enlarged Group would have been approximately HK$374.8 million, representing an increase of approximately 108.7%.

As shown in the section headed "Financial information on the Enlarged Group" in Appendix III to this circular, an intangible asset amounted to approximately HK$133,177,000 is recognised in the unaudited pro forma balance sheet of the Enlarged Group. The amount of such intangible asset is stated based on the indication from an independent valuer and is subject to finalisation. As mentioned in note 3b to the unaudited pro forma balance sheet of the Enlarged Group, the amount of HK$133,177,000 represents the intangible asset of the customer base of the Perryville Group. In accordance with HKFRS 3 "Business Combinations", under which the acquirer shall recognise the acquiree's assets, liabilities, and contingent liabilities which include intangible assets at the acquisition date.

No quantified amount of such intangible asset was taken into account by the Company when agreeing the terms of the S&P Agreement.

The Group had unaudited consolidated total liabilities as at 30 June 2007 of approximately HK$2 million. As shown in the section headed "Financial information on the Enlarged Group" in Appendix III to this circular, had completion of the Acquisition been taken place on 30 June 2007, the pro forma total liabilities of the Enlarged Group would have been approximately HK$168.4 million.

The Group had unaudited consolidated net assets (including minority interests) as at 30 June 2007 of approximately HK$177.6 million or approximately HK$0.249 on a per Share basis (based on the number of Shares in issue as at 30 June 2007). Had completion of the Acquisition been taken place on 30 June 2007, the pro forma net assets of the Enlarged Group (including minority interests) would have been approximately HK$206.4 million, representing an increase of approximately 16.2%.

Shareholders should refer to Appendix III to this circular for details of the bases and assumptions adopted for the preparation of the pro forma financial statements of the Enlarged Group.

Earnings

The Group recorded an audited consolidated profit attributable to equity holders of the Company of approximately HK$1 million for the year ended 31 December 2006. Had completion of the Acquisition been taken place on 1 January 2006, the pro forma net loss of the Enlarged Group attributable to equity holders of the Company would have been approximately HK$3.9 million. Although the Perryville Group recorded a combined net profit for the year ended 31 March 2007, the Enlarged Group would have recorded a pro forma net loss for the year ended 31 December 2006 mainly due to the amortisation of intangible asset which may arise from the Acquisition and interest expenses under the Convertible Note. Shareholders should note that it is preliminarily considered that any intangible asset which may arise as a result of the Acquisition will be amortised on a straight line basis over 10 years. The estimated useful life of the intangible asset may be subject to change, for example, due to change in customer base and competition.

Shareholders should refer to Appendix III to this circular for details of the bases and assumptions adopted for the preparation of the pro forma financial statements of the Enlarged Group.

Working capital

Although it is shown in the pro forma cash flow statement of the Enlarged Group as set out in Appendix III to this circular that the Enlarged Group would had a deficiency in cash and cash equivalents as at 31 December 2006 had completion of the Acquisition been taken place on 1 January 2006, such pro forma information has not taken into account the cash inflow to the Group after 31 December 2006.

Shareholders may refer to the announcement of the Company dated 15 May 2007 in relation to a top-up placing of the Company. The Company issued 118,900,000 Shares at a price of HK$0.35 per Share. The net proceeds from the top-up subscription were approximately HK$40.3 million.

As disclosed in the annual report of the Company for the year ended 31 December 2006, Leading Highway Limited (a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is wholly owned by Mr. Cheng Yung Pun, the executive Director) has undertaken to make financial accommodation available for the Group's working capital requirements. It is proposed that a loan of approximately HK$19,000,000 will be obtained from Mr. Cheng Yung Pun to the Company.

As stated in the paragraph headed "Working capital" in Appendix III to this circular, the Directors are of the opinion that, after taking into the Enlarged Group's available banking facilities, cash flows from operations and an unsecured, interest free loan to be obtained from a director of the Company of approximately HK$19,000,000, the Enlarged Group has sufficient working capital for its present requirements during the 12 months after the date of this circular.

Gearing position

As at 30 June 2007, the Group had unaudited total liabilities of approximately HK$2.0 million.

The total liabilities of the Enlarged Group would be approximately HK$168.4 million had the Acquisition been completed on 30 June 2007, whilst the total assets of the Enlarged Group as of the same date would increase to approximately HK$374.8 million.

Based on the above pro forma financial information, the pro forma gearing ratio (total liabilities-to-total assets ratio) of the Enlarged Group would be approximately 44.9%.

Shareholders should refer to Appendix III to this circular for details of the bases and assumptions adopted for the preparation of the pro forma financial statements of the Enlarged Group.

INFORMATION ABOUT THE MANAGEMENT OF THE COMPANY

As at the Latest Practicable Date, the Board comprises Mr Cheng Yung Pun, Mr Yu Sui Chuen and Ms Cheng Wing See, Nathalie (who are executive Directors), Mr Luo ZhiJian (who is a non-executive Director), and Mr Au-Yeung Tsan Pong, Davie, Mr Fung Ka Choi and Mr Wong Chu Fung (who are independent non-executive Directors).

There is no provision under the S&P Agreement that any representatives of the Vendor or the Perryville Group will be appointed as Directors. No existing Director has stated an intention to resign as a result of the Acquisition.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The major operations of the Group are held under a joint venture in Hangzhou, the PRC, and two joint ventures in Shanxi, the PRC (the Xiangyi joint venture and the Linhong joint venture), all of which are engaged in the management and operation of toll roads and bridges in Mainland China.

The toll road managed and operated by the Group's Hangzhou joint venture is a highway connecting the traffic network of Zhejiang Province to the Anhui and Jiangsu Provinces. It is a restricted grade one dual-2-lane highway between Shanhusha and Jinjialing. The Group's Hangzhou joint venture has a concession right for 30 years commencing 4 April 1994.

The toll road managed and operated by the Group's Xiangyi joint venture is a key road for coal transportation in the Shanxi Province. It is a class 2 dual-1-lane highway running between Xiangfen City and Taitouzhen. The toll bridge managed and operated by the Group's Xiangyi joint venture connects the toll road to Xiangfen city. The Group's Xiangyi joint venture has a concession right for 20 years commencing 13 November 1997.

The toll road managed and operated by the Group's Linhong joint venture is a class 2 dual-1-lane highway running from the west of Zhao Cheng to the east of Ke Cheng in the Linfen district of Shanxi Province. The toll bridge managed and operated by the Group's Linhong joint venture connects the 309 National Highway to Linfen City. The Group's Linhong joint venture has a concession right for 20 years commencing 13 November 1997.

For the year ended 31 December 2006, the gross toll revenue of the Group amounted to approximately HK$15.2 million, representing a decrease of approximately 48.3% as compared with that for the year ended 31 December 2005. The profit of the Group attributable to equity holders of the Company also decreased from approximately HK$5.8 million for the year ended 31 December 2005 to approximately HK$1.0 million for the year ended 31 December 2006. The decrease was mainly a result of the decrease in the compensation granted by the Hangzhou City government as compared to the year 2005 and a diversion of Hangzhou non-registered automobiles to Hang Qian Toll Road (「杭千公路」) and adjacent alternate roads of Hangzhou Toll Road.

Whilst the Group will continue to carry out its existing toll road and toll bridge businesses, the existing management of the Company considers that it is in the best interests of the Company and the Shareholders as a whole to diversify the Group's business into new businesses with attractive prospects.

As described above, the Perryville Group is principally engaged in the provision of limousine and airport shuttle transportation services in Hong Kong.

The business of the Perryville Group is well-established in the market and profitable. The Directors consider that the Acquisition will allow the Group to diversify its income and business risk by investing in this sector of the transportation services market and will provide the Group with stable cash inflow. The Directors (including the independent non-executive Directors) consider that the terms of the S&P agreement are on normal commercial terms and are fair and reasonable and that the entering into of the S&P Agreement and the Acquisition are in the best interests of the Company and the Shareholders as a whole.

GENERAL

The Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules and therefore is subject to approval by the Shareholders at the SGM under Rule 14.49 of the Listing Rules. As at the Latest Practicable Date, neither the Vendor nor any of its associates held any Shares. To the best of the Company's knowledge, information and belief, having made all reasonable enquiries, it is not aware of any Shareholders who have a material interest in the S&P Agreement. Accordingly, no Shareholders are required to abstain from voting in respect of the resolution to approve the S&P Agreement and the Acquisition at the SGM.

Resolution will be proposed at the SGM to approve the Acquisition, the S&P Agreement and the transactions contemplated thereunder.

SGM

The SGM will be held at Garden Room A & B, 2/F., Hotel Nikko Hong Kong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on 15 October 2007, Monday, at 2:30 p.m. A notice convening the SGM is set out on pages 104 to 105 of this circular.

Enclosed is a form of proxy for use at the SGM. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible, but in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting(s). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting(s) should you so wish.

RECOMMENDATION

Having considered both the reasons and benefits to be generated from the Acquisition as set out on page 12 of this circular, Directors (including the independent non-executive Directors) consider that the terms of S&P Agreement are fair and reasonable and on normal commercial terms and that the Acquisition is in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition, the S&P Agreement and the transactions contemplated thereunder.

By order of the Board
Cheng Yung Pun
Chairman

1. SHARE CAPITAL

The authorised and issued capital of the Company as at the Latest Practicable Date were as follows:

Authorised capital:

		HK$
2,000,000,000	ordinary shares of HK$0.10 each	200,000,000.00

Issued and fully paid or credited as fully paid:

As at the Latest Practicable Date:

713,737,652	ordinary shares of HK$0.10 each	71,373,765.20

The increase in the authorised share capital of the Company from HK$80,000,000 comprising 800,000,000 Shares to HK$200,000,000 comprising 2,000,000,000 Shares was approved by the Shareholders at a special general meeting of the Company held on 18 September 2007. The increase in authroised share capital of the Company has come into effect since 18 September 2007.

The Company may issue the Convertible Note under the S&P Agreement with an aggregate principal amount of HK$120 million which may be converted into 285,714,285 new Shares upon conversion in full at the initial conversion price (subject to adjustment).

All Shares (when issued) rank pari passu in respect of capital, dividends and voting.

Save as disclosed in this circular, no share or loan capital of the Company or any member of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant, derivative or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

2. SUMMARY OF FINANCIAL INFORMATION ON THE GROUP

Set out below is a summary of the financial results of the Group for the six months ended 30 June 2006 and 2007 and for the three years ended 31 December 2004, 2005 and 2006. For the financial year ended 31 December 2006, the auditor of the Company has expressed a qualified opinion on the financial statements of the Company. The details are set out in paragraph 5 of this appendix.

For the financial years ended 31 December 2004 and 2005, the auditor of the Company has expressed unqualified opinions on the financial statements of the Company.

FINANCIAL SUMMARY

	For the six months ended 30 June		For the year ended 31 December		
	2007	2006	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*	*(audited) (restated)*
RESULTS					
Gross toll revenue	3,182	8,671	15,213	29,423	30,109
(Loss) profit before taxation	(1,600)	3,300	5,011	14,253	14,122
Income tax expense	(112)	(881)	(1,142)	(2,379)	(2,949)
(Loss) profit for the period/year	(1,712)	2,419	3,869	11,874	11,173
Attributable to:					
Equity holders of the Company	(1,392)	776	1,000	5,835	5,673
Minority interests	(320)	1,643	2,869	6,039	5,500
	(1,712)	2,419	3,869	11,874	11,173
(Loss) earnings per share					
– Basic (cents)	(0.23)	0.13	0.17	1.14	1.19
– Diluted (cents)	N/A	N/A	N/A	1.02	1.00

	As at 30 June	As at 31 December		
	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	*(audited)*	*(audited)*	*(audited) (restated)*
ASSETS AND LIABILITIES				
Total assets	179,630	144,708	156,399	141,936
Total liabilities	(2,025)	(3,297)	(13,785)	(23,715)
	177,605	141,411	142,614	118,221
Equity attributable to equity holders of the Company	99,089	60,175	53,315	31,970
Minority interests	78,516	81,236	89,299	86,251
	177,605	141,411	142,614	118,221

3. RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

The following is the audited financial statements of the Group for the year ended 31 December 2006 as extracted from the annual report of the Company for the same year.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2006

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

CONSOLIDATED BALANCE SHEET

At 31st December, 2006

	NOTES	**2006** HK$'000	2005 HK$'000
Non-current assets			
Toll road operation rights	*15*	**81,414**	82,820
Property, plant and equipment	*16*	**459**	598
Interests in infrastructure joint ventures	*18*	**—**	—
Amounts due from minority shareholders of a subsidiary	*19*	**48,872**	12,180
Deferred tax assets	*25*	**4,048**	4,109
		134,793	99,707
Current assets			
Other receivables, deposits and prepayments		**237**	1,991
Amounts due from minority shareholders of a subsidiary	*19*	**—**	36,836
Bank balances and cash	*20*	**9,678**	17,865
		9,915	56,692
Current liabilities			
Other payables and accrued charges	*21*	**1,746**	1,708
Tax liabilities		**215**	1,092
		1,961	2,800
Net current assets		**7,954**	53,892
Total assets less current liabilities		**142,747**	153,599
Capital and reserves			
Share capital	*24*	**59,484**	59,484
Reserves		**691**	(6,169)
Equity attributable to equity holders of the Company		**60,175**	53,315
Minority interests		**81,236**	89,299
		141,411	142,614
Non-current liabilities			
Amount due to ultimate holding company	*22*	**—**	6,695
Amount due to a director	*22*	**1,336**	4,290
		1,336	10,985
		142,747	153,599

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2006

	Attributable to equity holders of the Company								
	Share capital HK$'000	Statutory surplus reserve HK$'000	Convertible notes reserve HK$'000	Shareholders' contribution reserve HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2005	47,484	1,453	1,585	—	—	(18,552)	31,970	86,251	118,221
Exchange differences arising on translation of foreign operation recognised directly in equity	—	—	—	—	2,766	—	2,766	—	2,766
Profit for the year	—	—	—	—	—	5,835	5,835	6,039	11,874
Total recognised income for the year	—	—	—	—	2,766	5,835	8,601	6,039	14,640
Appropriations	—	762	—	—	—	(762)	—	—	—
Issue of shares due to exercise of convertible notes	12,000	—	—	—	—	—	12,000	—	12,000
Transfer of convertible notes reserve on conversion of convertible notes	—	—	(1,057)	—	—	1,057	—	—	—
Reversal of convertible notes reserve on maturity	—	—	(528)	—	—	528	—	—	—
Deemed contribution from (distribution to) shareholders	—	—	—	744	—	—	744	(2,991)	(2,247)
At 31st December, 2005	59,484	2,215	—	744	2,766	(11,894)	53,315	89,299	142,614
Exchange differences arising on translation of foreign operation recognised directly in equity	—	—	—	—	5,903	—	5,903	—	5,903
Profit for the year	—	—	—	—	—	1,000	1,000	2,869	3,869
Total recognised income for the year	—	—	—	—	5,903	1,000	6,903	2,869	9,772
Appropriations	—	235	—	—	—	(235)	—	—	—
Dividend declared and paid by a subsidiary	—	—	—	—	—	—	—	(7,804)	(7,804)
Deemed contribution from (distribution to) shareholders	—	—	—	(581)	—	538	(43)	(3,128)	(3,171)
At 31st December, 2006	**59,484**	**2,450**	**—**	**163**	**8,669**	**(10,591)**	**60,175**	**81,236**	**141,411**

The statutory surplus reserve represents enterprise development and general reserve funds appropriated from the profit after tax of a subsidiary established in the People's Republic of China (the "PRC") in accordance with the PRC laws and regulations.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2006

	2006	2005
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before taxation	**5,011**	14,253
Adjustments for:		
Amortisation of toll road operation rights	**4,603**	4,485
Depreciation of property, plant and equipment	**161**	193
Interest income	**(1,121)**	(699)
Interest expense	**481**	755
Operating cash flows before movements in working capital	**9,135**	18,987
Decrease (increase) in other receivables, deposits and prepayments	**1,754**	(200)
Increase in other payables and accrued charges	**38**	219
Cash generated from operating activities	**10,927**	19,006
Income tax paid	**(1,866)**	(2,415)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**9,061**	16,591
INVESTING ACTIVITIES		
Interest received	**214**	132
Purchase of property, plant and equipment	**(2)**	(14)
Advance to minority shareholders of a subsidiary	**—**	(46,681)
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	**212**	(46,563)
FINANCING ACTIVITIES		
(Repayment of) advance from a director	**(3,093)**	1,366
Decrease in amount due to ultimate holding company	**(7,080)**	—
Dividend paid to minority shareholders	**(7,804)**	—
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	**(17,977)**	1,366
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(8,704)**	(28,606)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**17,865**	45,597
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**517**	874
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY		
Bank balances and cash	**9,678**	17,865

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2006

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Leading Highway Limited ("Leading Highway"), a company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of this annual report.

The Company is an investment holding company. The principal activities and other details of its subsidiaries and infrastructure joint ventures are set out in notes 17 and 18 respectively.

The functional currency of the Group is Renminbi. For the purpose of conveniences of the consolidated financial statements users, the consolidated financial statements are presented in Hong Kong dollars.

2. BASIS OF VALUATION OF KEY ASSETS

As at 31st December, 2006, the toll road operation rights were stated at an aggregate carrying value of HK$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 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 these 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.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("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 Hong Kong Institute of Certified Public Accountants ("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.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) — INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) — INT 8	Scope of HKFRS 2[3]
HK(IFRIC) — INT 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) — INT 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC) — INT 11	HKFRS 2 — Group and Treasury Share Transactions[6]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st March, 2006.
[3] Effective for annual periods beginning on or after 1st May, 2006.
[4] Effective for annual periods beginning on or after 1st June, 2006.
[5] Effective for annual periods beginning on or after 1st November, 2006.
[6] Effective for annual periods beginning on or after 1st March, 2007.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the 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 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, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Infrastructure joint ventures

Joint venture arrangements which involve the establishment of a separate entity for investment in and development, operation and management of toll roads and bridges and in which venturers have joint control over the economic activity of the entity are referred to as infrastructure joint ventures.

The Group's infrastructure joint ventures are Sino-foreign co-operative joint ventures registered in the PRC in respect of which the venturers' cash/profit sharing ratios and the share of net assets upon the expiration of the joint venture periods are predetermined in accordance with the joint venture agreements and are in proportion to their capital contribution ratios.

The results and assets and liabilities of infrastructure joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in infrastructure joint ventures are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the infrastructure joint ventures, less any identified impairment loss. When the Group's share of losses of a infrastructure joint ventures equals or exceeds its interest in that infrastructure joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that infrastructure joint ventures.

Where a group entity transacts with a infrastructure joint ventures of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the infrastructure joint ventures, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received for services provided in the normal course of business.

Revenue from the toll road operations is recognised on a receipts basis.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Toll road operation rights

The toll road operation rights are recognised as an intangible asset and stated in the balance sheet at cost less subsequent accumulated amortisation and accumulated impairment losses, if any.

Amortisation of the toll road operation rights is charged so as to write off the cost of the asset over the unexpired term of the operation rights using the straight-line method.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise. For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly classified as loans and receivables. The accounting policies adopted in respect of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including bank balances, other receivables, deposits and amounts due from minority shareholders of a subsidiary are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including other payables and accrued charges, amounts due to a director and ultimate holding company are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the consolidated income statement on a straight line basis over the terms of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

Government grants

Government grants for loss in toll receipts are recognised as income over the year necessary to match them with the related costs. Grants related to expense items are recognised as turnover in the same year as those expenses are charged in the consolidated income statement.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as expenses as when employees have rendered service entitling them to the contributions.

5. CRITICAL KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4, management has made the following estimates that have most significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Impairment review on toll road operation rights

The Group assesses the impairment of the toll road operation rights owned by a subsidiary, HHED, whenever events or changes in circumstances indicate that the carrying amount of the toll road operation rights may not be recoverable. The Group has used the discounted cash flow forecast prepared by Vigers Appraisal & Consulting Limited, an independent qualified professional valuer not connected with the Group to assess the recoverable amount of the toll road operation rights. Vigers Appraisal & Consulting Limited has appropriate qualifications and recent experience in the valuation of similar assets in the relevant locations. The assumptions that the Group considered important in the preparation of the discounted cash flow forecast include the following:

- the growth in traffic volume in the forecast periods;
- no change to the toll fee in the forecast periods;
- a daily compensation of RMB50,000 to be received from the Hangzhou City government; and
- no significant change to the existing political, legal, rates of taxation in the PRC.

Whenever the carrying amount of the toll road operation rights exceeds its recoverable amount, an impairment loss is recognised. The recoverable amount is the higher of the toll road operation rights' fair value less unit costs to sell and value in use. The fair value less unit costs to sell is the amount obtainable from the sale of the toll road operation rights in an arm's-length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing operation of the toll road and from its disposal at the end of its useful life.

Settlement of the amounts due from minority shareholders of a subsidiary

As disclosed in notes 17 and 19, the amounts due from minority shareholders of a subsidiary may be settled, at the discretion of the directors of HHED, by future dividends to be declared by HHED. The Group has assessed the future operating results of HHED in estimating the timing of future dividends. In case of any revision to the timing of future dividends, the carrying amount will be recalculated by computing the present value of the remaining cash flows at the original effective interest rate. Any adjustment to the carrying amount resulting from the revision to the timing of the dividends is recognised as income or expense in profit or loss. The ability of HHED to declare dividends in the future will also depends on the amount of government compensation to be received in the future years. The details of the government compensation are set out in notes 7 and 15.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include other receivables, deposits and prepayments, amounts due from minority shareholders of a subsidiary, bank balances and cash, other payables and accrued charges, amounts due to ultimate holding company and a director. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group has minimal foreign exchange exposure as the Group's transactions are mainly denominated in Renminbi and Hong Kong dollars which are the functional currency of the relevant entities. The Group currently does not have a foreign currency hedging policy. At the balance sheet date, the bank balances and cash of approximately HK$9,536,000 (2005: HK$17,806,000) were denominated in Renminbi which is not freely convertible into other currencies.

(ii) Interest rate risk

The Group's bank balances have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

In addition, the Group has exposure of fair value interest rate risk through the impact of the rate changes on amounts due to ultimate holding company and a director and amounts due from minority shareholders of a subsidiary. The Group does not have interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Credit risk

As at 31st December, 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet. However, these credit risks of the Group are minimal, as all of the customers paid by cash. Moreover, for the amounts due from minority shareholders of a subsidiary, at the discretion of the directors of HHED, it may be set off against future dividends to be declared by HHED. The details are set out in notes 17 and 19.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Apart from the amounts due from minority shareholders of a subsidiary, the Group has no concentration of credit risk, which exposure spread over a number of counterparties.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. 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	2005
	HK$'000	*HK$'000*
Toll receipts	**7,409**	12,076
Hangzhou City government compensation (note)	**7,804**	17,347
	15,213	29,423

Note: Pursuant to Instruction No. 197 and No. (2003) 31 issued by the Hangzhou City government on 26th October, 2003, with effective from 1st January, 2004 that all the automobiles registered in Hangzhou City are exempted from toll payments for the purpose of enhancing capacity of its road networks and providing efficient services. In order to compensate HHED for the loss of toll receipts collected from automobiles registered in the Hangzhou City, a daily compensation of RMB50,000 was granted to HHED in the year ended 31st December, 2005. The compensation is subject to annual review by Hangzhou City government and the compensation agreement will be evaluated year by year. The total amount of compensation received during the year ended 31st December, 2006 amounted to HK$7,804,000 (2005: HK$17,347,000) have been included in the turnover for the year. Up to the approval date of these financial statements, the amount of remaining compensation is under negotiation and no compensation agreement has been reached by HHED and the Hangzhou City government on the daily compensation for the year ended 31st December, 2006.

8. 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.

9. FINANCE COSTS

Finance costs represent:

	2006	2005
	HK$'000	*HK$'000*
Effective interest expenses on convertible notes (note 23)	**—**	643
Imputed interest on amount due to ultimate holding company	**259**	112
Imputed interest on amount due to a director	**222**	—
	481	755

10. PROFIT BEFORE TAXATION

	2006	2005
	HK$'000	*HK$'000*
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 (note 12)	**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)

11. INCOME TAX EXPENSE

	2006	2005
	HK$'000	*HK$'000*
Current year:		
Income tax charge	**872**	2,877
Underprovision in prior years	**51**	—
	923	2,877
Deferred tax:		
Current year charge to consolidated income statement (note 25)	**219**	213
Tax effect of cessation of concessionary rate	**—**	(711)
	219	(498)
	1,142	2,379

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.

The expense for the year can be reconciled to the profit per the consolidated income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation	**5,011**	14,253
Tax at the income tax rate of 18%	**902**	2,566
Tax effect of expenses not deductible for tax purposes	**357**	626
Tax effect of income not taxable for tax purposes	**(168)**	(102)
Tax effect of cessation of concessionary rate	**—**	(711)
Underprovision in respect of prior years	**51**	—
Tax charge for the year	**1,142**	2,379

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

The emoluments paid or payable to each of the seven (2005: six) directors were as follows:

2006

	Executive directors			**Non-executive director**	**Independent non-executive directors**			
	Cheng Yung Pun	**Yu Sui Chuen**	**Cheng Wing See, Nathalie**	**Luo ZhiJian**	**Au-Yeung Tsan Pong, Davie**	**Fung Ka Choi**	**Wong Chu Fung**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Fee	**50**	**50**	**50**	**10**	**50**	**50**	**50**	**310**

2005

	Executive directors			Independent non-executive directors			
	Cheng Yung Pun	Yu Sui Chuen	Cheng Wing See, Nathalie	Au-Yeung Tsan Pong, Davie	Fung Ka Choi	Wong Chu Fung	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fee	50	50	50	50	50	50	300

No director waived any emoluments in the two years ended 31st December, 2006.

(ii) Employees' emoluments

The emoluments of the four individuals with highest emoluments in the Group (2005: five) were as follows. The remaining highest paid individual is director set out in (i).

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**431**	188
Performance related incentive payments	**8**	638
	439	826

13. DIVIDENDS

No dividend was paid or proposed during the year, nor any dividend has been proposed since the balance sheet date.

14. 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	2005
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share	**1,000**	5,835
Effect of dilutive potential ordinary shares:		
Interest on convertible notes		643
Earnings for the purpose of diluted earnings per share		6,478
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**594,838**	511,002
Effect of dilutive potential ordinary shares:		
Convertible notes		126,904
Weighted average number of ordinary shares for the purpose of diluted earnings per share		637,906

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

15. TOLL ROAD OPERATION RIGHTS

	HK$'000
COST	
At 1st January, 2005	116,392
Exchange adjustment	2,238
At 31st December, 2005	118,630
Exchange adjustment	4,745
At 31st December 2006	**123,375**
AMORTISATION AND IMPAIRMENT	
At 1st January, 2005	30,683
Charge for the year	4,485
Exchange adjustment	642
At 31st December, 2005	35,810
Charge for the year	4,603
Exchange adjustment	1,548
At 31st December, 2006	**41,961**
CARRYING VALUES	
At 31st December, 2006	**81,414**
At 31st December, 2005	82,820

The toll road operation rights represent the concession rights over a toll road in Hangzhou (the "Hangzhou Toll Road") for 30 years, starting from 4th April, 1994 up to 3rd April, 2024, and carry the entitlement to the tolls from traffic running from Fuyang City to Hangzhou City, Zhejiang Province, the PRC. The toll road operation rights are owned by HHED. The land use rights of the toll road remained the property of the PRC government of Zhejiang Province. The Hangzhou Toll Road is a dual-2-lane national highway between Hangzhou City and Fuyang City with designated speed of 100km/ h. Tolls are collected for all travel from Fuyang City to Hangzhou City. The toll road operation rights are amortised on a straight-line basis over the period from the date of acquisition to the date of cessation of the rights of approximately 22 years.

In January 2005, HHED entered an agreement with the Hangzhou City government that a daily compensation of RMB50,000 for the loss of toll receipts for the year ended 31st December, 2005. The compensation is subject to annual review by Hangzhou City government and the agreement will be evaluated year by year. Up to the approval date of this financial statement, the amount of compensation for the year ended 31st December, 2006, other than amount already received during the year, is under negotiation and no further agreement on the daily compensation has been entered by HHED and the Hangzhou City government. Details of the compensation received by the Group during the year ended 31st December, 2006 are set out in note 7.

The Group's toll road operation rights as at 31st December, 2006 were revalued by Vigers Appraisal & Consulting Limited at market value using an income approach. Vigers Appraisal & Consulting Limited is not connected with the Group. According to the valuation report, no impairment on the toll road operation rights was required to be made.

16. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST			
At 1st January, 2005	421	815	1,236
Additions	14	—	14
Exchange adjustment	8	16	24
At 31st December, 2005	443	831	1,274
Additions	2	—	2
Exchange adjustment	18	33	51
At 31st December, 2006	**463**	**864**	**1,327**
DEPRECIATION			
At 1st January, 2005	104	368	472
Provided for the year	62	131	193
Exchange adjustment	3	8	11
At 31st December, 2005	169	507	676
Provided for the year	52	109	161
Exchange adjustment	8	23	31
At 31st December, 2006	**229**	**639**	**868**
CARRYING VALUES			
At 31st December, 2006	**234**	**225**	**459**
At 31st December, 2005	274	324	598

The above items of property, plant and equipment are depreciated on a straight-line basis at the rate of 20% per annum after taking into account of residual value.

17. INTERESTS IN SUBSIDIARIES

Details of the principal subsidiaries held by the Company at 31st December, 2006 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Issued and fully paid share/ registered capital	Proportion ownership interest held by the Company *Directly*	*Indirectly*	Proportion of voting power held by the Company	Principal activities
Cableport Holdings Limited	British Virgin Islands	US$ 2	100%	—	100%	Investment holding
Intrum Sino Limited	British Virgin Islands	US$ 2	100%	—	100%	Investment holding
HHED*	PRC#	RMB170,000,000	—	60%	60%	Operation of toll road

* *Dividend payment arrangement concerning HHED*

The former immediate holding company of HHED, Wah Nam Infrastructure Investment Limited ("WNII") has, under a prior arrangement with two PRC joint venture partners in HHED, Hangzhou Luda Freeway Engineering Co. Limited ("Luda") and Hangzhou Traffic Investment Company Limited ("Hangzhou Traffic") recouped approximately RMB101.5 million of its investment in HHED by way of cash and dividends. Of the RMB101.5 million, approximately RMB21.1 million was received by WNII in 1995 and 1996 by way of dividends with the remaining amount of approximately RMB80.4 million received by cash prior to 31st December, 2000.

According to a board minute of HHED dated 25th February, 2000, WNII agreed that it would allow Luda and Hangzhou Traffic to recoup their investments of RMB68 million in the HHED once WNII recouped its investment of RMB102 million in HHED.

Luda and Hangzhou Traffic had received cash recoupment of an aggregate amount of approximately RMB19 million (of which approximately RMB14 million was received by way of dividends and approximately RMB4.8 million was received by Luda and Hangzhou Traffic by cash). Upon the acquisition of HHED by the Company, Leading Highway, Hangzhou Traffic and Luda have come to the understanding that it is the intention of Luda and Hangzhou Traffic that a further amount of approximately RMB49 million (being an amount equal to the remaining balance of the unrecouped investment of Hangzhou Traffic and Luda in HHED) would be recovered out of the future available cash flows from HHED.

The Group has agreed to defer its pro rata entitlement to surplus cashflow from HHED until Luda and Hangzhou Traffic has recovered all its unrecouped investment.

During the year ended 31st December, 2005, an amount of approximately RMB49 million was drawn by Hangzhou Traffic and Luda in HHED according to the understanding reached upon the acquisition of HHED in 2002. The amounts may be settled through future dividends to be declared by HHED at the discretion of the directors of HHED. Details of the acquisition and the settlement arrangement are set out in the prospectus dated 18th July, 2002.

The subsidiary is established in the PRC as Sino-foreign equity joint venture.

None of the subsidiaries had any debt securities outstanding at the end of the year or any time during the year.

18. INTERESTS IN INFRASTRUCTURE JOINT VENTURES

	2006	2005
	HK$'000	*HK$'000*
Cost of investment	—	—
Share of post-acquisition profits	—	—
	—	—

According to the Restructuring Agreement completed on 17th September, 2002, the Group acquired the infrastructure joint ventures at nil consideration. The toll road and toll bridge in each of the infrastructure joint ventures have performed substantially below expectations. Against this background, it was considered that the fair value of these assets estimated with reference to the cash flow projections of the toll roads and toll bridges is negligible.

As at 31st December, 2006, the Group had interests in the following infrastructure joint ventures:

Name of infrastructure joint venture	Place of incorporation or establishment/ operations	Issued and fully paid registered capital	Proportion ownership interest held by the Group Indirectly	Proportion of voting power held by the Company	Principal activities
山西襄翼道橋基建有限公司** Shanxi Xiangyi Road & Bridge Construction Ltd.	PRC	RMB65,556,000	45%	45%	Operation of toll road and bridge
山西臨洪道橋基建有限公司** Shanxi Linhong Road & Bridge Construction Ltd.	PRC	RMB51,204,000	45%	45%	Operation of toll road and bridge

** The infrastructure joint ventures are Sino-foreign co-operative joint ventures and are formed with an independent Hong Kong partner ("HK Partner") and an independent PRC partner ("PRC Partner") for a period of 20 years commencing from 13th November, 1997. The Group, HK Partner and PRC Partner each has a 45%, 10% and 45% interests respectively in each joint venture's registered capital.

In accordance with the articles of each of the joint venture agreements of the respective infrastructure joint ventures, no distribution to the joint venture partners will be made until the loans obtained and related interest payable by the infrastructure joint ventures have been fully repaid. The distribution will then be applied in the following orders and on the basis described below:

(a) The distribution will firstly be made in the proportion of 57.27%, 12.73% and 30% respectively to the Group, HK Partner and PRC Partner respectively until the Group and HK Partner have recovered in full amount of the respective capital contributed by them to the respective joint ventures;

(b) Subsequently, the distribution will be made in the proportion of 24.55%, 5.45% and 70% to the Group, HK Partner and PRC Partner respectively until the PRC Partner has also recovered the total capital contribution by itself to the respective joint ventures; and

(c) Thereafterwards, the distribution will be based on the percentage of capital contributed by the respective joint venture partners in the joint ventures.

The Group has discontinued recognition of its share of losses of the above infrastructure joint ventures. The accounts of unrecognised share of these infrastructure joint ventures, both for the year and cumulatively, are as follows:

	2006	2005
	HK$'000	*HK$'000*
Unrecognised share of losses of jointly controlled entities for the year	**(1,659)**	(473)
Accumulated unrecognised share of losses of jointly controlled entities	**(35,761)**	(34,102)

19. AMOUNTS DUE FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

During the year ended 31st December, 2005, the amount of approximately RMB49 million was recovered by the minority shareholders in HHED according to the understanding reached upon the acquisition of the HHED in 2002. Details of the arrangement are set out in note 17.

The amounts are unsecured and interest-free. As at 31st December, 2006, the amounts due from minority shareholders of a subsidiary may be settled through future dividends to be declared by HHED, at the discretion of the directors of HHED, as follows:

	2006	2005
	HK\$'000	*HK\$'000*
Within one year	**—**	36,836
Over one year	**48,872**	12,180
	48,872	49,016

On application of HKAS 39, the fair value of the amounts due from minority shareholders of a subsidiary is determined based on an effective interest rate of 9.64% (2005: 5.75%) on initial recognition.

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry prevailing interest rate of 1.08% (2005: 1.08%) per annum.

21. OTHER PAYABLES AND ACCRUED CHARGES

Other payables and accrued charges comprise amounts outstanding for on-going costs.

22. AMOUNTS DUE TO A DIRECTOR AND ULTIMATE HOLDING COMPANY

The amounts are unsecured and interest-free. As at 31st December, 2006, the directors confirmed that the amount due to a director is not repayable within the next twelve months. As at 31st December, 2005, the director and the ultimate holding company have confirmed that the amounts due to a director and ultimate holding company are not repayable within the next twelve months. On application of HKAS 39, the fair value of the amounts due to a director and ultimate holding company are determined based on an effective interest rate of 8.00% (2005: 5.75%) on initial recognition.

23. CONVERTIBLE NOTES

The convertible notes payable to the ultimate holding company were unsecured and bore interest at 2% per annum which were payable annually in arrears from the issue date of 17th September, 2002 to the maturity date of 17th September, 2005.

Each convertible note can be converted into an ordinary share of HK$0.10 each in the Company at any time prior to the maturity date at the initial conversion price of HK$0.10 per share (subject to adjustments).

Before the maturity date of 17th September, 2005, the holder of the convertible notes did not have the right to demand repayment of the principal amount of the convertible notes. The holder of the convertible notes is not entitled to vote at general meetings of the Company. The effective interest rate of the liability component is approximately 5.25%.

In September 2005, the ultimate holding company converted HK$12,000,000 into 120,000,000 ordinary shares of HK$0.10 each in the Company. The remaining HK$6,000,000 was settled through current account with the ultimate holding company.

The movement of the liability component of the convertible notes for the year is set out below:

	2006	2005
	HK$'000	*HK$'000*
Liability component at the beginning of the year	—	17,613
Interest charged (note 9)	—	643
Interest payable	—	(256)
Converted into ordinary shares	—	(12,000)
Settled through current account with ultimate holding company	—	(6,000)
Liability at the end of the year	—	—

24. SHARE CAPITAL

	Number of shares	**Share capital**
	'000	*HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	**800,000**	**80,000**
Issued and fully paid:		
At 1st January, 2005	474,838	47,484
Exercise of convertible notes (note 23)	120,000	12,000
At 31st December, 2005 and 31st December, 2006	**594,838**	**59,484**

25. DEFERRED TAX ASSETS

The following is the major deferred tax assets recognised by the Group and movements thereon during the current reporting year.

	Repairs and renovation costs	**Impairment loss recognised in respect of toll road operation rights**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1st January, 2005	752	2,784	3,536
Charge to consolidated income statement for the year	(45)	(168)	(213)
Tax effect of cessation of concessionary rate	150	561	711
Exchange rate adjustment	17	58	75
At 31st December, 2005	874	3,235	4,109
Charge to consolidated income statement for the year	(47)	(172)	(219)
Exchange rate adjustment	34	124	158
At 31st December, 2006	**861**	**3,187**	**4,048**

26. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December, 2005 and 2006.

27. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating lease which falls due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	—	132

Operating lease payments represent rentals payable by the Group for its office premises. Lease was early terminated during the year.

28. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2005, convertible notes of HK$12,000,000 were converted into 120,000,000 ordinary shares of HK$0.10 each in the Company. The convertible notes of HK$6,000,000 were settled through the current account with the ultimate holding company. The accrued interest of the convertible notes of approximately HK$824,000 was transferred from other payables and accrued charges to amount due to ultimate holding company.

29. SHARE OPTION SCHEME

The share option scheme (the "Share Option Scheme") of the Company was adopted by the Company pursuant to the written resolutions of the sole shareholder passed on 14th August, 2002 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. The Share Option Scheme is valid and effective for a period of ten years after the date of its adoption. Under the Share Option Scheme, the board of directors of the Company may grant options to eligible participants including employees, executives or officers and directors (including executive and non-executive directors) of the Company or any of its subsidiaries, and any suppliers, consultants and advisers who will contribute or have contributed to the Group to subscribe for shares in the Company.

At the date of this report, the total number of shares available for issue under the Share Option Scheme is 47,483,765 shares which represents 7.98% of the issued share capital of the Company on the adoption date of the Share Option Scheme and the date of this annual report.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company on the adoption date of the Share Option Scheme unless prior approval from the Company's shareholders in general meeting has been obtained. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time. The total number of shares in respect of which options may be granted to any eligible participant in any twelve-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, unless prior approval from the Company's shareholders in general meeting has been obtained. Options granted to substantial shareholder or an independent non-executive director of the Company in excess of 0.1% of the Company's share in issue and with a value in excess of HK$5 million must be approval in advance by the Company's shareholders in general meeting.

There is no general requirement that an option must be held to any minimum period before it can be exercised but the board of directors is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. Options offered must be taken up not later than 28 days after the date of offer. A non-fundable remittance of HK$1 is payable as consideration by the grantee upon acceptance of every grant of option under the Share Option Scheme. The period during which an option may be exercised will be determined by the board of directors at its absolute discretion, save that such period of time shall not exceed a period of ten years commencing on the date which the option is granted. The exercise price is determined by the board of directors of the Company, and will not be less than the highest of (i) the closing price of the share on the Stock Exchange's daily quotation sheet on the date of offer (ii) the average closing price of the shares on the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of offer and (iii) the nominal value of a share of the Company.

There has been no option granted since the adoption of the Share Option Scheme.

30. RETIREMENT BENEFITS SCHEME

The employees of the Group's subsidiary in PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The subsidiary is required to contribute average 23% of payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

31. RELATED PARTY TRANSACTIONS

The related party transactions and balances are disclosed in notes 9, 10, 19 and 22 respectively. During the year ended 31st December, 2005, the effective interest expenses on convertible notes of approximately HK$643,000 of which the interest of HK$256,000 was accrued to Leading Highway, the ultimate holding company. Mr. Cheng Yung Pun is the equity owner of Leading Highway. The interest was calculated at 2% per annum in accordance with the convertible notes agreement.

For the year ended 31st December, 2006, rental expenses have been borne by a related company in which Mr. Cheng Yung Pun is the substantial shareholder.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other short term employee benefits	**463**	552

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

32. POST BALANCE SHEET EVENTS

Subsequent to the year ended 31st December, 2006, 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.

4. RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

The following is the unaudited interim financial statements of the Group for the six months ended 30 June 2007 as extracted from the interim report of the Company for the same period.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2007

		For the six months ended 30th June,	
		2007	2006
	NOTES	***HK$'000***	*HK$'000*
		(Unaudited)	*(Unaudited)*
Gross toll revenue	*3*	**3,182**	8,671
Business tax		**(159)**	(434)
Net toll revenue		**3,023**	8,237
Direct costs		**(3,664)**	(3,834)
		(641)	4,403
Other income		**270**	478
Administrative expenses		**(1,189)**	(1,265)
Finance costs	*5*	**(40)**	(316)
(Loss) profit before taxation	*6*	**(1,600)**	3,300
Income tax expense	*7*	**(112)**	(881)
(Loss) profit for the period		**(1,712)**	2,419
Attributable to:			
Equity holders of the Company		**(1,392)**	776
Minority interests		**(320)**	1,643
		(1,712)	2,419
(Loss) earnings per share	*8*		
– Basic (cents)		**(0.23)**	0.13
– Diluted (cents)		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2007

	NOTES	30th June, 2007 HK$'000 (Unaudited)	31st December, 2006 HK$'000 (Audited)
Non-current assets			
Toll road operation rights		**79,055**	81,414
Property, plant and equipment		**395**	459
Amounts due from minority shareholders of a subsidiary	*9*	**49,009**	48,872
Deferred tax asset		**3,935**	4,048
		132,394	134,793
Current assets			
Other receivables, deposits and prepayments		**30,746**	237
Bank balances and cash		**16,490**	9,678
		47,236	9,915
Current liabilities			
Other payables and accrued charges		**2,025**	1,746
Tax liabilities		**—**	215
		2,025	1,961
Net current assets		**45,211**	7,954
Total assets less current liabilities		**177,605**	142,747
Capital and reserves			
Share capital	*10*	**71,374**	59,484
Reserves		**27,715**	691
Equity attributable to equity holders of the Company		**99,089**	60,175
Minority interests		**78,516**	81,236
		177,605	141,411
Non-current liabilities			
Amount due to a director		—	1,336
		177,605	142,747

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2007

	Attributable to equity holders of the Company								
	Share capital	Share premium	Statutory surplus reserve	Shareholders' contribution reserve	Translation reserve	Accumulated losses	Total	Minority Interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2007	59,484	—	2,450	163	8,669	(10,591)	60,175	81,236	141,411
Issue of new shares	11,890	28,485	—	—	—	—	40,375	—	40,375
Dividend declared and paid by a subsidiary	—	—	—	—	—	—	—	(2,400)	(2,400)
Deemed distribution to shareholders	—	—	—	(163)	—	94	(69)	—	(69)
Loss for the period, representing total recognised loss for the period	—	—	—	—	—	(1,392)	(1,392)	(320)	(1,712)
At 30th June, 2007	71,374	28,485	2,450	—	8,669	(11,889)	99,089	78,516	177,605
At 1st January, 2006	59,484	—	2,215	744	2,766	(11,894)	53,315	89,299	142,614
Profit for the period, representing total recognised income for the period	—	—	—	—	—	776	776	1,643	2,419
Appropriations	—	—	171	—	—	(171)	—	—	—
At 30th June, 2006	59,484	—	2,386	744	2,766	(11,289)	54,091	90,942	145,033

The statutory surplus reserve represents enterprise development and general reserve funds appropriated from the profit after tax of a subsidiary established in the People's Republic of China (the "PRC") in accordance with the PRC laws and regulations.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2007

	For the six months ended 30th June,	
	2007	2006
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**494**	6,409
Net cash (used in) generated from investing activities	**(30,214)**	109
Net cash generated from financing activities	**36,532**	801
Net increase in cash and cash equivalents	**6,812**	7,319
Cash and cash equivalents at beginning of the period	**9,678**	17,865
Cash and cash equivalents at end of the period	**16,490**	25,184

NOTES

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed 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.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2006.

In the current period, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on 1st January, 2007. 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.

The Group has not early applied the following new standard, amendments or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standard, amendments or interpretations will have no material impact on the results and financial position of the Group.

HKAS 23 (Revised)	Borrowing costs[1]
HKFRS 8	Operating segments[1]
HK(IFRIC) — INT 11	HKFRS 2 — Group and Treasury Share Transactions[2]
HK(IFRIC) — INT 12	Service concession arrangements[3]

[1] Effective for annual periods beginning on or after 1st January, 2009.
[2] Effective for annual periods beginning on or after 1st March, 2007.
[3] Effective for annual periods beginning on or after 1st January, 2008.

3. 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.

	For the six months ended 30th June,	
	2007	2006
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Toll receipts	**3,182**	3,863
Hangzhou City government compensation	**—**	4,808
	3,182	8,671

4. 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.

5. FINANCE COSTS

Finance costs represent:

	For the six months ended 30th June,	
	2007	2006
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Imputed interest on amount due to ultimate holding company	**—**	193
Imputed interest on amount due to a director	**40**	123
	40	316

6. (LOSS) PROFIT BEFORE TAXATION

	For the six months ended 30th June,	
	2007	2006
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss) profit before taxation has been arrived at after charging (crediting):		
Amortisation of toll road operation rights (included in direct costs)	**2,359**	2,268
Depreciation of property, plant and equipment	**65**	85
Repairs and renovation costs	**122**	367
Interest income	**(88)**	(111)
Imputed interest income on amounts due from minority shareholders of a subsidiary	**(137)**	(367)

7. INCOME TAX EXPENSE

	For the six months ended 30th June,	
	2007	2006
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current period:		
Income tax charge	**—**	652
Underprovision in prior years	**—**	121
	—	773
Deferred tax:		
Current period charge to consolidated income statement	**112**	108
	112	881

Income tax charge represents the PRC enterprise income tax paid or payable during the period. Enterprise income tax in the PRC has been provided at the prevailing rate of 18% (2006: 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.

8. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share attributable to equity holders of the Company is based on the following data:

	For the six months ended 30th June,	
	2007	*2006*
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss) earnings for the purpose of basic (loss) earnings per share	**(1,392)**	776
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**606,239**	594,838

The Company has no dilutive potential ordinary shares for both periods under review.

9. AMOUNTS DUE FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

On application of HKAS 39, the fair value of the amounts due from minority shareholders of a subsidiary is determined based on an effective interest rate of 9.64% on initial recognition.

10. SHARE CAPITAL

	Number of shares	Share capital
	'000	*HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st January, 2006, 31st December, 2006 and 30th June, 2007	**800,000**	**80,000**
Issued and fully paid:		
At 1st January, 2006 and 31st December, 2006	594,838	59,484
Issue of top-up subscription shares	118,900	11,890
At 30th June, 2007	**713,738**	**71,374**

11. RELATED PARTY TRANSACTIONS

For the period ended 30th June, 2007, rental expenses have been borne by a related company in which Mr. Cheng Yung Pun is the substantial shareholder.

5. SUMMARY OF AUDIT OPINION

The following paragraphs are extracted from the independent auditor's report that included in the annual report of the Company for the year ended 31 December 2006.

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 recognised 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 the 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.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest published audited accounts of the Company were made up.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

27 September, 2007

To the Board of Directors
Wah Nam International Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Perryville Group Limited ("Perryville") and its subsidiaries (hereinafter collectively referred to as the "Perryville Group") for each for the three years ended 31 March 2007 (the "Relevant Periods") for inclusion in the circular of Wah Nam International Holdings Limited (the "Company") to its shareholders dated 27 September 2007 (the "Circular") issued in connection with the very substantial acquisition of Perryville (the "Acquisition").

Perryville was incorporated and registered as a limited liability company in the British Virgin Islands ("BVI") on 30 January 2007. Pursuant to a group reorganisation carried out subsequent to 31 March 2007 (the "Group Reorganisation"), Perryville has become the holding company of the companies comprising the Perryville Group in June 2007.

After the completion of the Group Reorganisation, Perryville has the following subsidiaries, all of which are private limited companies.

Name of subsidiary	Place and date of incorporation/operation	Issued and fully paid share capital	Attributable equity interest held by Perryville as at 31 March				Principal activities
			2005	*2006*	*2007*	date of this report	
Parklane Limousine Service Limited ("Parklane Limousine") *	Hong Kong 18 April 1990	Ordinary HK$5,000,000	100%	100%	100%	100%	Provision for limousine rental services
Airport Shuttle Services Limited ("Airport Shuttle") *	Hong Kong 14 February 1997	Ordinary HK$10,000	100%	100%	100%	100%	Provision for airport shuttle rental services
Hong Kong Creations Limited ("Hong Kong Creations")	Hong Kong 18 January 2007	Ordinary HK$10,000	—	—	100%	100%	Provision for limousine rental service
Parklane Chauffeur Limousine Limited ("Parklane Chauffeur")	Hong Kong 5 July 2007	Ordinary HK$10,000	—	—	—	100%	Inactive

* Directly held by Perryville

All the companies comprising the Perryville Group have adopted 31 March as their financial year end date.

The statutory financial statements of the following companies were audited by certified public accountants as follows:

Name of company	Financial year	Auditors
Parklane Limousine	For the year ended 31 March 2005	Alex K K Kwong
	Each of the years ended 31 March 2006 and 2007	K.W. Lam & Co.
Airport Shuttle	For the year ended 31 March 2005	Alex K K Kwong
	Each of the years ended 31 March 2006 and 2007	K.W. Lam & Co.

No statutory audited financial statements have been prepared for Perryville, Hong Kong Creations and Parklane Chauffeur since their respective dates of incorporation as Perryville was incorporated in country where there is no statutory audit requirement and audited financial statements are not required for Hong Kong Creations and Parklane Chauffeur due to the short period since their respective dates of incorporation.

We have examined the audited financial statements or management accounts of the companies comprising the Perryville Group (the "Underlying Financial Statements") for the Relevant Periods, or since the respective date of incorporation of the companies now comprising the Perryville Group to 31 March 2007, where this is a shorter period. Our examination was made in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information of the Perryville Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 of Section A, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the sole director of Perryville who approves their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section A, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Perryville Group as at 31 March 2005, 2006 and 2007 and of the state of affairs of Perryville as at 31 March 2007, and of the combined results and cash flows of the Perryville Group for the Relevant Periods.

(A) FINANCIAL INFORMATION

COMBINED INCOME STATEMENTS

		Year ended 31 March		
		2005	**2006**	**2007**
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	*5*	76,074	83,305	88,001
Cost of sales		(62,285)	(61,680)	(58,612)
Gross profits		13,789	21,625	29,389
Other income		472	697	834
Administrative expenses		(10,949)	(16,098)	(12,511)
Finance costs	*6*	(2,781)	(1,270)	(1,508)
Profit before taxation		531	4,954	16,204
Income tax expense	*7*	(497)	(1,123)	(1,941)
Profit for the year	*8*	34	3,831	14,263

BALANCE SHEETS

		Perryville Group As at 31 March			Perryville As at 31 March
		2005	2006	2007	2007
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Plant and equipment	*11*	29,959	24,521	37,354	—
Current assets					
Trade receivables	*12*	9,445	10,115	10,726	—
Other receivables, deposits and prepayments	*12*	2,368	2,186	3,609	—
Amount due from former shareholder	*13*	—	12,300	—	—
Amount due from immediate holding company	*13*	—	—	—	390
Bank balances and cash	*14*	1,760	3,583	10,252	—
		13,573	28,184	24,587	390
Current liabilities					
Trade payables	*15*	5,690	6,012	5,164	—
Other payables and accrued charges	*15*	3,410	3,491	3,541	—
Amount due to former shareholder	*13*	1,200	—	—	—
Amount due to immediate holding company	*13*	22,419	22,419	5,728	—
Secured bank borrowings - amount due within one year	*16*	16,433	15,253	27,902	—
		49,152	47,175	42,335	—
Net current (liabilities) assets		(35,579)	(18,991)	(17,748)	390
Total assets less current (liabilities) assets		(5,620)	5,530	19,606	390
Capital and reserve					
Share capital	*17*	5,010	5,010	5,400	390
Reserve		(12,518)	(8,687)	5,576	—
Total capital and reserve		(7,508)	(3,677)	10,976	390
Non-current liabilities					
Secured bank borrowings - amount due more than one year	*16*	—	6,196	3,678	—
Deferred taxation	*18*	1,888	3,011	4,952	—
		1,888	9,207	8,630	—
		(5,620)	5,530	19,606	390

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital	**Accumulated (losses) profits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2004	5,010	(12,552)	(7,542)
Profit for the year and total income recognised	—	34	34
At 31 March 2005	5,010	(12,518)	(7,508)
Profit for the year and total income recognised	—	3,831	3,831
At 31 March 2006	5,010	(8,687)	(3,677)
Issue of share capital	390	—	390
Profit for the year and total income recognised	—	14,263	14,263
At 31 March 2007	5,400	5,576	10,976

COMBINED CASH FLOW STATEMENTS

	Year ended 31 March		
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES			
Profit before taxation	531	4,954	16,204
Adjustments for:			
Interest income	—	(8)	(74)
Interest expenses	2,781	1,270	1,508
Depreciation of plant and equipment	7,450	6,617	6,172
Loss on disposals of plant and equipment	—	4,768	62
Allowance for bad and doubtful debts	96	65	138
Operating cash flows before movements in working capital	10,858	17,666	24,010
Increase in trade receivables	(1,847)	(735)	(749)
Decrease (increase) in other receivables, deposits and prepayments	439	182	(1,423)
(Decrease) increase in trade payables	(1,680)	322	(848)
(Decrease) increase in other payables and accrued charges	(2,380)	81	50
NET CASH FROM OPERATING ACTIVITIES	5,390	17,516	21,040
INVESTING ACTIVITIES			
(Increase) decrease in amount due from former shareholder	—	(12,300)	12,300
Purchase of plant and equipment	(5,367)	(8,396)	(19,336)
Proceeds on disposals of plant and equipment	—	2,449	269
Interest received	—	8	74
NET CASH USED IN INVESTING ACTIVITIES	(5,367)	(18,239)	(6,693)
FINANCING ACTIVITIES			
Bank borrowings raised	17,312	11,881	18,070
Repayment of bank borrowings	(879)	(6,865)	(7,939)
Repayment of finance leases	(13,880)	—	—
Decrease in amount due to former shareholder	(1,800)	(1,200)	—
Increase (decrease) in amount due to immediate holding company	2,750	—	(16,301)
Interest paid	(2,781)	(1,270)	(1,508)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	722	2,546	(7,678)
NET INCREASE IN CASH AND CASH EQUIVALENTS	745	1,823	6,669
CASH AND CASH EQUIVALENTS AS AT THE BEGINNING OF THE YEAR	1,015	1,760	3,583
CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR, represented by bank balances and cash	1,760	3,583	10,252

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION AND PREPARATION OF FINANCIAL INFORMATION

The Financial Information of the Perryville Group has been prepared by applying the principles of merger accounting as set out in note 3. The combined income statements, combined statements of changes in equity and the combined cash flow statements include the results, changes in equity and cash flows of the companies now comprising the Perryville Group as if the group structure upon the Group Reorganisation had been in existence throughout the Relevant Periods or since the date of incorporation of the companies now comprising the Perryville Group, where this is a shorter period. The combined balance sheets of the Perryville Group as at 31 March 2005, 2006 and 2007 have been prepared to present the assets and liabilities of the Perryville Group as if the group structure upon the Group Reorganisation had been in existence at those dates.

The principal activity of Perryville is investment holding. The ultimate and immediate holding company of Perryville is Parklane International Holdings Limited ("Parklane International"), a company incorporated in BVI.

As at 31 March 2007, the Perryville Group had net current liabilities of approximately HK$17,748,000. In the event of the unsuccessful completion of the Acquisition, Parklane International will provide financial support to the Perryville Group. In the event of the successful completion of the Acquisition, the Company will provide financial support to the Perryville Group. Accordingly, the Financial Information has been prepared on a going concern basis.

The combined Financial Information is presented in Hong Kong dollars, which is the same as the functional currency of Perryville.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA issued a number of new and revised Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretations ("INT(s)"), (herein collectively referred to as "New HKFRSs") which are effective for the financial year of the Perryville Group beginning on 1 April 2006. For the purposes of preparing and presenting the Financial Information of the Perryville Group for the Relevant Periods, the Perryville Group has adopted all these New HKFRSs consistently throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following new and revised standards or INTs but are not yet effective. The sole director of Perryville anticipates that the application of these new and revised standards or INTs will have no material impact on the results and financial position of the Perryville Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 23 (Revised)	Borrowing costs[2]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC) — INT 8	Scope of HKFRS 2[3]
HK(IFRIC) — INT 9	Reassessment of embedded derivatives[4]
HK(IFRIC) — INT 10	Interim financial reporting and impairment[5]
HK(IFRIC) — INT 11	HKFRS 2 — Group and treasury share transactions[6]
HK(IFRIC) — INT 12	Service concession arrangements[7]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 May 2006.
[4] Effective for annual periods beginning on or after 1 June 2006.
[5] Effective for annual periods beginning on or after 1 November 2006.
[6] Effective for annual periods beginning on or after 1 March 2007.
[7] Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with the accounting policies set out below which are in conformity with HKFRSs issued by the HKICPA. In addition, the combined Financial Information, include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Merger accounting for business combination under common control

The Financial Information incorporates the financial statements items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented as if the entities had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

All significant intra-group transactions, balances, income and expenses are eliminated on combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

Limousine rental services income and shuttle bus rental services income are recognised when the services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Impairment

At each balance sheet date, the Perryville Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Perryville Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the combined income statement in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the combined income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense that are never taxable or deductible. The Perryville Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by each balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the combined income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

Payments to the Perryville Group's retirement benefits scheme which are defined contribution plans are charged as an expense when employees have rendered service entitling them to the contributions.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Perryville Group's financial assets are classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, deposits, amount due from former shareholder, amount due from immediate holding company and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Perryville Group after deducting all of its liabilities.

Financial liabilities including trade payables, other payables and accrued charges, amount due to former shareholder, amount due to immediate holding company and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments issued by entities comprising the Perryville Group are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Perryville Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Perryville Group's financial instruments include trade receivables, other receivables, deposits, amounts due from/to former shareholder, bank balances, trade payables, other payables and accrued charges, amounts due from/to immediate holding company and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Perryville Group has exposure to cash flow interest rate risk related primarily to variable rate bank borrowings (see note 16 for details of these borrowings) bank balances, and bank deposits carried at prevailing market interest rate. It is the Perryville Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Credit risk

The Perryville Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined balance sheet. In order to minimise the credit risk, the management of the Perryville Group has delegated a team to compile the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the management reviews the recoverable amount for each individual account receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the sole director of Perryville considers that the Perryville Group's credit risk is effectively controlled and significantly reduced.

The Perryville Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

The Perryville Group relies on bank borrowings and advance from immediate holding company as a significant source of finance. The Perryville Group had net current liabilities of approximately HK$17,748,000 as at 31 March 2007. In the event of the unsuccessful completion of the Acquisition, Parklane International will provide financial support to the Perryville Group. In the event of the successful completion of the Acquisition, the Company will provide financial support to the Perryville Group.

Fair value

The fair value of financial assets and financial liabilities are determined based on discounted cash flow analysis.

The sole director of Perryville considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

5. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received or receivable for providing limousine rental services and airport shuttle services during the Relevant Periods.

The sole director of Perryville reports the business segments as the Perryville Group's primary segment information.

Each segment represents a strategic business unit that offers services which are subject to risks and returns different from other segments. The Perryville Group's two segments are as follows:

(a) Limousine rental services—provision of limousine rental services in Hong Kong

(b) Airport shuttle rental services—provision of airport shuttle rental services in Hong Kong

Business segments

Combined income statement for the year ended 31 March 2005

	Limousine rental services	**Airport shuttle rental services**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	56,345	19,729	76,074
Segment results	9,143	(3,175)	5,968
Unallocated other income			199
Unallocated corporate expenses			(2,855)
Finance costs			(2,781)
Profit before taxation			531
Income tax expense			(497)
Profit for the year			34

Combined balance sheet at 31 March 2005

	Limousine rental services	Airport shuttle rental services	Combined
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Segment assets	32,030	9,683	41,713
Unallocated corporate assets			1,819
Combined total assets			43,532
Liabilities			
Segment liabilities	5,411	3,351	8,762
Unallocated corporate liabilities			42,278
Combined total liabilities			51,040

Other information for the year ended 31 March 2005

	Limousine rental services	Airport shuttle rental services	Unallocated	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Additions to plant and equipment	5,328	—	39	5,367
Allowance for bad and doubtful debts	59	—	37	96
Depreciation of plant and equipment	5,482	1,939	29	7,450

Combined income statement for the year ended 31 March 2006

	Limousine rental services	Airport shuttle rental services	Combined
	HK$'000	*HK$'000*	*HK$'000*
Revenue	62,731	20,574	83,305
Segment results	12,329	(2,680)	9,649
Unallocated other income			310
Unallocated corporate expenses			(3,735)
Finance costs			(1,270)
Profit before taxation			4,954
Income tax expense			(1,123)
Profit for the year			3,831

Combined balance sheet at 31 March 2006

	Limousine rental services	**Airport shuttle rental services**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Segment assets	34,626	2,127	36,753
Unallocated corporate assets			15,952
Combined total assets			52,705
Liabilities			
Segment liabilities	5,670	3,490	9,160
Unallocated corporate liabilities			47,222
Combined total liabilities			56,382

Other information for the year ended 31 March 2006

	Limousine rental services	**Airport shuttle rental services**	**Unallocated**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Additions to plant and equipment	8,364	—	32	8,396
Allowance for bad and doubtful debts	65	—	—	65
Depreciation of plant and equipment	6,111	485	21	6,617
Loss on disposals of plant and equipment	534	4,234	—	4,768

Combined income statement for the year ended 31 March 2007

	Limousine rental services	**Airport shuttle rental services**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	67,784	20,217	88,001
Segment results	17,438	4,266	21,704
Unallocated other income			177
Unallocated corporate expenses			(4,169)
Finance costs			(1,508)
Profit before taxation			16,204
Income tax expense			(1,941)
Profit for the year			14,263

Combined balance sheet at 31 March 2007

	Limousine rental services	Airport shuttle rental services	Combined
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Segment assets	48,574	2,674	51,248
Unallocated corporate assets			10,693
Combined total assets			61,941
Liabilities			
Segment liabilities	5,029	3,341	8,370
Unallocated corporate liabilities			42,595
Combined total liabilities			50,965

Other information for the year ended 31 March 2007

	Limousine rental services	Airport shuttle rental services	Unallocated	Combined
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Additions to plant and equipment	18,911	—	425	19,336
Allowance for bad and doubtful debts	138	—	—	138
Depreciation of plant and equipment	6,104	—	68	6,172
Loss on disposals of plant and equipment	62	—	—	62

As all of the revenue and operating results of the Perryville Group for the Relevant Periods is derived in Hong Kong, an analysis of revenue and operating results of the Perryville Group by geographical location is not presented.

All significant identifiable assets and liabilities of the Perryville Group are located in Hong Kong. Accordingly, no geographical segmental analysis is presented.

6. FINANCE COSTS

	Year ended 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Interest on:			
Bank borrowings wholly repayable within five years	124	1,270	1,508
Finance leases	2,657	—	—
	2,781	1,270	1,508

7. INCOME TAX EXPENSE

	Year ended 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Current year:			
Deferred taxation (Note 18)	497	1,123	1,941

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for each of the three years ended 31 March 2005, 2006 and 2007.

No provision for Hong Kong Profits Tax has been made in the combined financial statements as no assessable profit for the year ended 31 March 2005 and the assessable profits for the years ended 31 March 2006 and 2007 are wholly absorbed by tax losses brought forward.

The taxation for the Relevant Periods can be reconciled to the profit before taxation per the combined income statements as follows:

	Year ended 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation	531	4,954	16,204
Taxation at income tax rate of 17.5%	93	867	2,836
Tax effect of expenses not deductible for tax purpose	344	182	41
Tax effect of income not taxable for tax purpose	—	(1)	(13)
Tax effect of tax losses not recognised	60	—	—
Tax effect of utilisation of tax losses not previously recognised	—	—	(920)
Others	—	75	(3)
Income tax expense for the year	497	1,123	1,941

8. PROFIT FOR THE YEAR

	Year ended 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Profit for the year has been arrived at after charging (crediting):			
Allowance for bad and doubtful debts	96	65	138
Auditor's remuneration	20	20	20
Sole director's remuneration (Note 10)	767	1,212	1,222
Other staff costs:			
– salaries and other benefits	21,650	18,761	18,098
– retirement benefit scheme contributions	912	851	836
	22,562	19,612	18,934
Depreciation of plant and equipment	7,450	6,617	6,172
Operating lease rentals	3,260	2,527	2,663
Loss on disposals of plant and equipment	—	4,768	62
Interest income	—	(8)	(74)

9. EARNINGS PER SHARE

Earnings per share is not presented herein as the sole director of Perryville does not consider such information to be meaningful in the context of the Financial Information.

10. SOLE DIRECTOR'S AND EMPLOYEES' REMUNERATION

Sole director's remuneration

Mr. Leung Chi Yan is the sole director of Perryville. The aggregate amounts of emolument paid and payable to him by the Perryville Group during the Relevant Periods are as follows:

	Year ended 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Sole director's fee	—	—	—
Other emoluments:			
Salaries, allowances and other benefits	755	1,200	1,210
Retirement benefit scheme contributions	12	12	12
	767	1,212	1,222

Employees' remuneration

The emoluments of the five highest paid individuals included sole director for the Relevant Periods, whose emolument is disclosed above. The emoluments of the remaining four individuals are as follows:

	Year ended 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances and other benefits	914	900	946
Retirement benefit schemes contributions	44	44	46
	958	944	992

Their emoluments were within the following bands:

	Year ended 31 March		
	2005	**2006**	**2007**
	Number of employees	**Number of employees**	**Number of employees**
Nil to HK$1,000,000	4	4	4

11. PLANT AND EQUIPMENT

	Office equipment, furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*
PERRYVILLE GROUP			
COST			
At 1 April 2004	909	86,351	87,260
Additions	39	5,328	5,367
Disposals	—	(3,250)	(3,250)
At 31 March 2005	948	88,429	89,377
Additions	32	8,364	8,396
Disposals	—	(36,363)	(36,363)
At 31 March 2006	980	60,430	61,410
Additions	425	18,911	19,336
Disposals	—	(11,418)	(11,418)
At 31 March 2007	1,405	67,923	69,328
DEPRECIATION			
At 1 April 2004	860	54,358	55,218
Provided for the year	29	7,421	7,450
Eliminated on disposals	—	(3,250)	(3,250)
At 31 March 2005	889	58,529	59,418
Provided for the year	21	6,596	6,617
Eliminated on disposals	—	(29,146)	(29,146)
At 31 March 2006	910	35,979	36,889
Provided for the year	68	6,104	6,172
Eliminated on disposals	—	(11,087)	(11,087)
At 31 March 2007	978	30,996	31,974
CARRYING VALUES			
At 31 March 2005	59	29,900	29,959
At 31 March 2006	70	24,451	24,521
At 31 March 2007	427	36,927	37,354

All the above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Office equipment, furniture and fixtures	20% – 25%
Motor vehicles	10% – 12.5%

The Perryville Group has pledged certain of its motor vehicles with an aggregate carrying value of approximately HK$19,500,000 HK$19,921,000 and HK$33,124,000 as at 31 March 2005, 2006 and 2007 respectively to secure the banking facilities granted to the Perryville Group.

12. OTHER CURRENT FINANCIAL ASSETS

The Perryville Group allows an average credit period ranging from 30 days to 45 days to its customers. An aging analysis of the Perryville Group's trade receivables net of impairment losses at the respective balance sheet dates is as follows:

	PERRYVILLE GROUP As at 31 March		
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
0 – 30 days	6,892	7,607	7,429
31 – 60 days	1,984	1,899	2,552
61 – 90 days	18	93	508
Over 90 days	551	516	237
	9,445	10,115	10,726

Other receivables and deposits are receivables from third parties and repayable on demand.

13. AMOUNTS DUE FROM AND TO FORMER SHAREHOLDER/IMMEDIATE HOLDING COMPANY

Amounts due from and to former shareholder/immediate holding company were unsecured, non-interest bearing and were repayable on demand.

14. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Perryville Group and the current and saving accounts with banks.

The bank balances carried at prevailing market interest rate with effective interest rate of 0.5%, 1% and 1% for the years ended 31 March 2005, 2006 and 2007 respectively.

15. OTHER CURRENT FINANCIAL LIABILITIES

An aging analysis of the Perryville Group's trade payables at the respective balance sheet dates is as follows:

	PERRYVILLE GROUP As at 31 March		
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
0 – 30 days	4,078	5,555	5,110
31 – 60 days	672	8	—
61 – 90 days	471	—	—
Over 90 days	469	449	54
	5,690	6,012	5,164

Trade payables, other payables and accrued charges principally comprise amounts outstanding for trade purposes and ongoing costs.

16. SECURED BANK BORROWINGS

	PERRYVILLE GROUP As at 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
The secured variable interest rate bank borrowings are repayable as follow:			
On demand or within one year	16,433	15,253	27,902
More than one year, but not exceeding two years	—	2,518	2,721
More than two years but not more than five years	—	3,678	957
	16,433	21,449	31,580
Less: Amounts due within one year shown under current liabilities	(16,433)	(15,253)	(27,902)
	—	6,196	3,678

All bank borrowings are denominated in Hong Kong Dollars.

As at 31 March 2005, 2006 and 2007, the bank borrowings were secured by the motor vehicles as disclosed in note 11.

The ranges of effective interest rate (which are equal to contractual interest rates) on the Perryville Group's bank borrowings are as follows:

	2005	**2006**	**2007**
Effective interest rate:			
Variable-rate bank borrowings	4.81% to 5.00%	5.11% to 7.08%	5.88% to 7.90%

Guarantees have been given to a bank by Perryville Group's former shareholder and related parties of its former shareholder without charge in respect of banking facilities extended to the Perryville Group amounting to approximately HK$25,000,000, HK$33,524,000 and HK$31,196,000 as at 31 March 2005, 2006 and 2007 respectively.

17. SHARE CAPITAL

Perryville was incorporated on 30 January 2007. Perryville's 50,000 ordinary shares of US$1 each which equivalent to a total of HK$390,000 were issued and allotted to and fully paid by Parklane International on 31 January 2007.

For the purpose of this report, the share capital as at 31 March 2005 and 2006 represented the aggregate issued share capital of Parklane Limousine and Airport Shuttle and the share capital as at 31 March 2007 represented the aggregate issued share capital of Perryville, Parklane Limousine and Airport Shuttle.

18. DEFERRED TAXATION

The followings are the major deferred tax (assets) liabilities recognised and movements thereon during the Relevant Periods.

	Accelerated tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
PERRYVILLE GROUP			
At 1 April 2004	4,338	(2,947)	1,391
Charge (credit) to combined income statement for the year	611	(114)	497
At 31 March 2005	4,949	(3,061)	1,888
(Credit) charge to combined income statement for the year	(1,271)	2,394	1,123
At 31 March 2006	3,678	(667)	3,011
Charge to combined income statement for the year	1,483	458	1,941
At 31 March 2007	5,161	(209)	4,952

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset.

At 31 March 2005, 2006 and 2007, the Perryville Group had unused tax losses of approximately HK$37,728,000, HK$25,496,000 and HK$17,622,000 available for offset against future profits respectively. A deferred tax asset had been recognised in respect of such losses amounting to HK$17,491,000, HK$3,811,000 and HK$1,194,000 as at 31 March 2005, 2006 and 2007 respectively. No deferred tax asset has been recognised in respect of the remaining HK$20,237,000, HK$21,685,000 and HK$16,428,000 as at 31 March 2005, 2006 and 2007 respectively due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

19. COMMITMENTS

Operating leases commitments

The Perryville Group as lessee

At the balance sheet dates, the Perryville Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, car parks and counters in the international airport of Hong Kong which fall due as follows:

	As at 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	1,036	2,489	2,640
In the second to fifth year inclusive	—	810	623
	1,036	3,299	3,263

Leases are negotiated for an average term of two years and rentals are fixed for the lease period.

20. CAPITAL COMMITMENTS

	PERRYVILLE GROUP As at 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Capital expenditure in respect of acquisition of plant and equipment contracted for but not provided in the Financial Information	—	1,160	4,897

21. RELATED PARTY TRANSACTIONS

The balances with related parties are set out on the balance sheets on page 51. The terms are set out in note 13.

Compensation of key management personnel

The remuneration of the key management personnel during the Relevant Periods was as follows:

	PERRYVILLE GROUP Year ended 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowance and other benefits	2,329	2,760	2,881
Retirement benefit schemes contributions	89	89	94
	2,418	2,849	2,975

22. MAJOR NON-CASH TRANSACTION

On 31 January 2007, Perryville's 50,000 ordinary shares of US$1 each which equivalent to a total of HK$390,000 were issued and allotted to Parklane International as described in note 17. The amount was settled through current account with Parklane International.

23. CONTINGENT LIABILITIES

As at 31 March 2005, 2006 and 2007, Perryville Group had no significant contingent liabilities.

(B) SUBSEQUENT EVENTS

1. In order to facilitate the Acquisition, Group Reorganisation has been taken place and completed in June 2007 in which Perryville has become the holding company.

2. On 29 June 2007, the Company announced a proposed acquisition of the Perryville Group.

3. On 30 June 2007, the whole balance of the amount due to immediate holding company has been waived by Parklane International.

(C) SUBSEQUENT FINANCIAL STATEMENTS

As at the date of this report, no audited financial statements have been prepared by Perryville or any of the companies now comprising the Perryville Group in respect of any period subsequent to 31 March 2007.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

A. UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED GROUP

The following table is an illustrative unaudited pro forma income statement of the Enlarged Group which has been prepared on the basis set out below for the purpose of illustration as if the Completion (defined below) had taken place at the beginning of the fiscal year.

The unaudited pro forma income statement of the Enlarged Group is prepared as if the Acquisition and issuance of Convertible Note had been completed ("Completion") on 1 January 2006 and is based on the combined income statement of the Perryville Group for the year ended 31 March 2007 as extracted from the accountants' report of the Perryville Group as set out in Appendix II to this circular, and the consolidated income statement of the Group for the year ended 31 December 2006 as set out in Appendix I to this circular, and after making certain pro forma adjustments as set out below.

The unaudited pro forma income statement of the Enlarged Group is prepared to provide the unaudited pro forma financial information of the Enlarged Group as a result of Completion. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Enlarged Group for the year ended 31 December 2006 or any future financial periods.

	The Group year ended 31.12.2006	Perryville Group year ended 31.3.2007	Total	Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Gross revenue	15,213	88,001	103,214	—		103,214
Business tax	(760)	—	(760)	—		(760)
Net revenue	14,453	88,001	102,454			102,454
Direct costs	(7,545)	(58,612)	(66,157)	(14,348)	1,2	(80,505)
	6,908	29,389	36,297			21,949
Other income	1,147	834	1,981	—		1,981
Administrative expenses	(2,563)	(12,511)	(15,074)	—		(15,074)
Finance costs	(481)	(1,508)	(1,989)	(7,300)	3	(9,289)
Profit (Loss) before taxation	5,011	16,204	21,215			(433)
Income tax expense	(1,142)	(1,941)	(3,083)	2,511	1,2	(572)
Profit (Loss) for the year	3,869	14,263	18,132			(1,005)
Attributable to:						
Equity holders of the Company	1,000	14,263	15,263	(19,137)		(3,874)
Minority interests	2,869	—	2,869	—		2,869
	3,869	14,263	18,132			(1,005)

Notes:

1. The adjustment represents the additional charge on depreciation and the reversal of deferred tax liabilities during the year ended 31 December 2006 arising from the valuation of the motor vehicles of the Perryville Group. The increase in fair value of the motor vehicles is approximately HK$4,938,000 and the expected remaining useful lives of these motor vehicles are 5 years. The Company has assumed that except for motor vehicles, there is no other fair values changes to the assets and liabilities of the Perryville Group at the Completion. This adjustment will have continuing effect on the Enlarged Group in the subsequent financial years.

2. The adjustment represents the amortisation of the intangible asset of the customer base of Perryville Group arising from the acquisition of the Perryville Group and the reversal of deferred tax liabilities. The intangible asset is amortised on a straight-line basis over an estimated useful life of 10 years. This adjustment will have continuing effect on the Enlarged Group in the subsequent financial years.

3. The effective interest expenses of approximately HK$7,300,000 were arisen from the Convertible Note with a principal amount of HK$120,000,000. For the purpose of this pro forma financial information, the fair value of the debt component of the Convertible Note is determined based on an effective interest rate of 8% per annum. This adjustment will have continuing effect on the Enlarged Group in the subsequent financial years. No deferred tax liabilities would be arisen from the issuance of the Convertible Note as the interest expenses from the Convertible Note is not deductible for tax purpose.

B. UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED GROUP

The following table is an illustrative unaudited pro forma balance sheet of the Enlarged Group which has been prepared on the basis set out below for the purpose of illustration as if Completion had taken place on 30 June 2007.

The unaudited pro forma balance sheet of the Enlarged Group is prepared as if the Completion had taken place on 30 June 2007 and is based on the combined balance sheet of the Perryville Group as at 31 March 2007 as extracted from the accountants' report on the Perryville Group as set out in Appendix II to the circular, and the unaudited consolidated balance sheet of the Group as at 30 June 2007 as set out in Appendix I to the circular and after making certain pro forma adjustments as set out below.

The unaudited pro forma balance sheet of the Enlarged Group is prepared to provide the unaudited pro forma financial information on the Enlarged Group as a result of Completion. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Group as at 30 June 2007 or at any future date.

	The Group as at 30.6.2007	**Perryville Group as at 31.3.2007**	**Total**	**Pro forma adjustments**		**Pro forma Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Non-current assets						
Toll road operation rights	79,055	—	79,055	—		79,055
Property, plant and equipment	395	37,354	37,749	4,938	2	42,687
Amounts due from minority shareholders of a subsidiary	49,009	—	49,009	—		49,009
Deferred tax assets	3,935	—	3,935	—		3,935
Goodwill	—	—	—	50,964	3a	50,964
Intangible asset	—	—	—	133,177	3b	133,177
	132,394	37,354	169,748			358,827
Current assets						
Trade receivables	—	10,726	10,726	—		10,726
Other receivables, deposits and prepayments	30,746	3,609	34,355	(30,300)	1a	4,055
Bank balances and cash	16,490	10,252	26,742	(25,585)	1b	1,157
	47,236	24,587	71,823			15,938

	The Group as at 30.6.2007	Perryville Group as at 31.3.2007	Total	Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Current liabilities						
Trade payables	—	5,164	5,164	—		5,164
Other payables and accrued charges	2,025	3,541	5,566	5,728	4	11,294
Amount due to immediate holding company	—	5,728	5,728	(5,728)	4	—
Secured bank borrowings – amount due within one year	—	27,902	27,902			27,902
	2,025	42,335	44,360			44,360
Net current assets (liabilities)	45,211	(17,748)	27,463			(28,422)
Total assets less current assets (liabilities)	177,605	19,606	197,211			330,405
Capital and reserves						
Share capital	71,374	5,400	76,774	(5,400)	5	71,374
Reserves	27,715	5,576	33,291	23,172	5,6	56,463
Total capital and reserves	99,089	10,976	110,065			127,837
Minority interests	78,516	—	78,516			78,516
	177,605	10,976	188,581			206,353
Non-current liabilities						
Secured bank borrowings— amount due more than one year	—	3,678	3,678			3,678
Deferred tax liabilities	—	4,952	4,952	24,170	2,3b	29,122
Convertible notes	—	—	—	91,252	6	91,252
	—	8,630	8,630			124,052
	177,605	19,606	197,211			330,405

Notes:

1a. The adjustment represents the derecognition of the deposit of HK$30,000,000 in cash paid to the Vendor in respect of the Acquisition in accordance with the terms set out in the "Consideration" section of "LETTER FROM THE BOARD" to this circular and of the prepayment of HK$300,000 professional fee in relation to the Acquisition and issuance of Convertible Note made by the Company.

1b. The adjustment represents (i) the payment of further HK$20,000,000 in cash, being the rest of cash settlement portion of the purchase price of the Acquisition in accordance with the terms set out in the "Consideration" section of "LETTER FROM THE BOARD" to this circular; (ii) the payment of the total estimated expenses in relation to the Acquisition and issuance of Convertible Note of approximately HK$5,885,000; and (iii) set off with the prepayment of HK$300,000 stated in note 1a.

2. The adjustment represents the fair value adjustment and the related deferred tax liabilities on motor vehicles of the Perryville Group as at 30 June 2007 arising from the valuation of motor vehicles. The Company has assumed that except for the motor vehicles, there is no other fair values changes to the assets and liabilities of the Perryville Group at the Completion.

3a. The adjustment represents the goodwill of HK$50,964,000 arising from the acquisition of the Perryville Group. Goodwill represents the excess of the consideration of HK$170,000,000, which represents cash of HK$50,000,000 and the estimated fair value of the Convertible Note of HK$120,000,000, details of which are set out in note 6 below, and the expenses in relation to the Acquisition and issuance of Convertible Note of approximately HK$5,885,000 paid over the fair value of the assets and liabilities (including the intangible asset, fair value adjustment on motor vehicles and related deferred tax liabilities) of the Perryville Group. The Group has engaged an independent professional valuer to assess the fair value of the intangible asset which represents customer base.

3b. The adjustment represents the intangible asset of the customer base of Perryville Group and the related deferred tax liabilities arising from the acquisition of the Perryville Group. According to HKFRS 3 "Business Combinations", the acquirer shall recognise the acquiree's assets, liabilities, and contingent liabilities which include intangible assets at the acquisition date. The valuation of the intangible asset of the customer base is based on the discounted future cash flows generated from the Perryville Group's customers conducted by an independent professional valuer. The principal assumptions adopted in the valuation of the customer base of the Perryville Group include, among other things, (i) there will be no material adverse change in the political, legal, fiscal or economic condition in the PRC and other regions in which the enterprise carries on its business and the key management, competent personnel and technical staff will be retained to support the Perryville Group's ongoing operation; (ii) the revenue of the Perryville Group will continue to grow; (iii) the customer base has an expected life of 10 years; (iv) the Perryville Group will continue to enjoy its market position and after the Acquisition, the market trend and conditions will not deviate significantly from the economic forecast in general; (v) there are no non-operating cash flow items such as exchange rate gain/loss, compensations on accidents and (vi) there are no substantial capital requirements for the airport shuttle services of the Perryville Group. The valuation of the intangible asset is based on the amount set out in the draft valuation report as at the Latest Practicable Date. The issue of the valuation report is subject to finalisation pending the completion of the Acquisition. The Company does not expect the final valuation of the intangible asset to be materially differ from the figure used in the above pro forma financial statements of the Enlarged Group. If the fair value of the intangible asset under the final valuation is substantially different from the current amount disclosed, a supplemental announcement will be made.

4. The adjustment represents the reclassification of the amount due to immediate holding company as shown in the Perryville Group to other payables and accrued charges.

5. The adjustment represents the elimination of share capital and pre-acquisition reserves of the Perryville Group as at 30 June 2007.

6. The adjustment represents the issuance of Convertible Note with a principal amount of HK$120,000,000 for the Acquisition. The Convertible Note has a maturity period of 5 years and bears interest at 2% per annum payable yearly in arrears. The Company does not have a right to redeem the Convertible Note prior to the maturity date. For the purpose of this unaudited pro forma balance sheet of the Enlarged Group, the Directors consider that the fair value of Convertible Note is HK$120,000,000 and has adopted Hong Kong Accounting Standard 32 "Financial Instruments - Presentation" to separate the equity component and debt component of the Convertible Note which amounted to approximately HK$28,748,000 and HK$91,252,000 respectively. Upon the completion of the Acquisition, the Company's Directors will engage a professional valuer to assess the fair value of the Convertible Note as at the completion date.

   No deferred tax liabilities would be arisen from the issuance of the Convertible Note as the interest expenses from the Convertible Note is not deductible for tax purpose.

C. UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED GROUP

The following table is an illustrative unaudited pro forma cash flow statement of the Enlarged Group which has been prepared on the basis set out below for the purpose of illustration as if Completion had taken place at the beginning of the fiscal year.

The unaudited pro forma cash flow statement of the Enlarged Group is prepared as if the Completion had taken place on 1 January 2006 and is based on the combined cash flow statement of the Perryville Group for the year ended 31 March 2007 as extracted from the accountants' report on the Perryville Group as set out in Appendix II to the circular, and the consolidated cash flow statement of the Group for the year ended 31 December 2006 as set out in Appendix I to the circular, and after making certain pro forma adjustments as set out below.

The unaudited pro forma cash flow statement of the Enlarged Group is prepared to provide the unaudited pro forma financial information on the Enlarged Group as a result of Completion. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flows of the Enlarged Group for the year ended 31 December 2006 or for any future financial periods.

	The Group year ended 31.12.2006	**Perryville Group year ended 31.3.2007**	**Total**	**Pro forma adjustments**		**Pro forma Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
OPERATING ACTIVITIES						
Profit (loss) before taxation	5,011	16,204	21,215	(21,648)	1,2a,2b	(433)
Adjustments for:						
Amortisation of toll road operation rights	4,603	—	4,603			4,603
Depreciation of property, plant and equipment	161	6,172	6,333	1,030	2a	7,363
Amortisation of intangible asset	—	—	—	13,318	2b	13,318
Loss on disposals of property, plant and equipment	—	62	62			62
Allowance for bad and doubtful debts	—	138	138			138
Interest income	(1,121)	(74)	(1,195)			(1,195)
Interest expense	481	1,508	1,989	7,300	1	9,289
Operating cash flows before movements in working capital	9,135	24,010	33,145			33,145
Increase in trade receivables	—	(749)	(749)			(749)
Decrease (increase) in other receivables, deposits and prepayments	1,754	(1,423)	331			331
Decrease in trade payables	—	(848)	(848)			(848)
Increase in other payables and accrued charges	38	50	88			88
Cash generated from operating activities	10,927	21,040	31,967			31,967
Income tax paid	(1,866)	—	(1,866)			(1,866)
NET CASH GENERATED FROM OPERATING ACTIVITIES	9,061	21,040	30,101			30,101

	The Group year ended 31.12.2006	Perryville Group year ended 31.3.2007	Total	Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
INVESTING ACTIVITIES						
Interest received	214	74	288			288
Purchase of property, plant and equipment	(2)	(19,336)	(19,338)			(19,338)
Proceeds on disposals of property, plant and equipment	—	269	269			269
Decrease in amount due from former shareholder	—	12,300	12,300			12,300
Acquisition of subsidiaries	—	—	—	(52,302)	3	(52,302)
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	212	(6,693)	(6,481)			(58,783)
FINANCING ACTIVITIES						
Bank borrowings raised	—	18,070	18,070			18,070
Repayment of bank borrowings	—	(7,939)	(7,939)			(7,939)
Interest paid	—	(1,508)	(1,508)	(2,400)	4	(3,908)
Decrease in amount due to ultimate holding company	(7,080)	—	(7,080)			(7,080)
Decrease in amount due to immediate holding company	—	(16,301)	(16,301)			(16,301)
Repayment to a director	(3,093)	—	(3,093)			(3,093)
Dividend paid to minority shareholders	(7,804)	—	(7,804)			(7,804)
NET CASH USED IN FINANCING ACTIVITIES	(17,977)	(7,678)	(25,655)			(28,055)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,704)	6,669	(2,035)			(56,737)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,865	3,583	21,448	(3,583)	3	17,865
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	517	—	517			517
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY						
Bank balances and cash	9,678	10,252	19,930			(38,355)

Notes:

1. The effective interest expenses of approximately HK$7,300,000 were arisen from the Convertible Note with a principal amount of HK$120,000,000. For the purpose of this pro forma financial information, the fair value of the debt component of the Convertible Note is determined based on an effective interest rate

of 8% per annum, which is determined based on the prevailing prime rate. This adjustment will have continuing effect on the Enlarged Group in the subsequent financial years.

2a. The adjustment represents the additional charge on depreciation during the year ended 31 December 2006 arising from the valuation of the motor vehicles of the Perryville Group. The increase in fair value of the motor vehicles is approximately HK$4,938,000 and the estimated remaining useful lives of these motor vehicles are 5 years. The Company has assumed that except for motor vehicles, there is no other fair values changes to the assets and liabilities of the Perryville Group at the Completion. This adjustment will have continuing effect on the Enlarged Group in the subsequent financial years.

2b. The adjustment represents the amortisation of the intangible asset of the customer base of Perryville Group arising from the acquisition of the Perryville Group. The intangible asset is amortised on a straight-line basis over an estimated useful life of 10 years. This adjustment will have continuing effect on the Enlarged Group in the subsequent financial years.

3. The adjustment represents (i) the acquisition of the cash and cash equivalents of the Perryville Group (ii) the payment of cash considerations of HK$50,000,000 being the cash settlement portion of the purchase price of the Acquisition in accordance with the terms set out in the "Consideration" section of "LETTER FROM THE BOARD" to the circular and (iii) the total estimated expenses in relation to the Acquisition and issuance of Convertible Note of approximately HK$5,885,000.

4. The adjustment represents interest paid for Convertible Note with a principal amount of HK$120,000,000, bearing interest at 2% per annum payable yearly in arrears.

2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte.
德勤

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香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

TO THE DIRECTORS OF WAH NAM INTERNATIONAL HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Wah Nam International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), Perryville Group Limited ("Perryville") and its subsidiaries (the "Perryville Group", together with the Group hereinafter collectively referred to as the "Enlarged Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed very substantial acquisition of Perryville might have affected the financial information presented, for inclusion in Appendix III of the circular dated 27 September 2007 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages 70 to 76 of the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Enlarged Group as at 30 June 2007 or any future date; or
- the results and cash flows of the Enlarged Group for the year ended 31 December 2006 or any future period.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 September 2007

3. INDEBTEDNESS STATEMENT

At the close of business on 31 July 2007, being the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement prior to the printing of this circular, the Enlarged Group had bank borrowings of approximately HK$31,761,000 comprising the term loans and revolving loans of approximately HK$5,378,000 and HK$26,383,000 respectively which were secured by certain motor vehicles of the Enlarged Group, personal guarantees and corporate guarantee. Included in the bank borrowings of approximately HK$ 28,743,000 would be due within one year and HK$3,018,000 would be due over one year.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have outstanding, at close of business on 31 July 2007, any debt securities (whether outstanding, and authorised or otherwise created but unissued), term loans (whether guaranteed, unguaranteed, secured or unsecured), any other borrowings or indebtedness in the nature of borrowings such as overdrafts, liabilities under acceptable or acceptance credits, hire purchase commitments (whether guaranteed, unguaranteed, secured or unsecured), mortgages, charges, guarantees or other contingent liabilities.

The Directors are not aware of any material adverse change in the Enlarged Group's indebtedness and contingent liabilities since the close of business on 31 July 2007.

4. WORKING CAPITAL

Although it is shown in the pro forma cash flow statement of the Enlarged Group as set out in Appendix III to this circular that the Enlarged Group would had a deficiency in cash and cash equivalents as at 31 December 2006 had completion of the Acquisition been taken place on 1 January 2006, such pro forma information has not taken into account the cash inflow to the Group after 31 December 2006.

Shareholders may refer to the announcement of the Company dated 15 May 2007 in relation to a top-up placing of the Company. The Company issued 118,900,000 Shares at a price of HK$0.35 per Share. The net proceeds from the top-up subscription were approximately HK$40.3 million.

As disclosed in the annual report of the Company for the year ended 31 December 2006, Leading Highway Limited (a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is wholly owned by Mr. Cheng Yung Pun, the executive Director) has undertaken to make financial accommodation available for the Group's working capital requirements. It is proposed that a loan of approximately HK$19,000,000 will be obtained from Mr. Cheng Yung Pun to the Company.

The Directors are of the opinion that, after taking into the Enlarged Group's available banking facilities, cash flows from operations and an unsecured, interest free loan to be obtained from a director of the Company of approximately HK$19,000,000, the Enlarged Group has sufficient working capital for its present requirements during the 12 months after the date of this circular.

1. THE GROUP

A. BUSINESS REVIEW FOR THE SIX MONTHS ENDED 30 JUNE 2007

During the six months ended 30 June 2007, the Group reported an unaudited consolidated toll revenue of HK$3,182,000 (six months ended 30 June 2006: HK$8,671,000) and an unaudited loss attributable to equity holders of the Company of HK$1,392,000 (six months ended 30 June 2006: profit of HK$776,000). The decline in both toll revenue and profit was primarily attributable to the non-receipt of the government compensation from the Hangzhou City government since the year 2007. In addition, a newly launch of the divergent road of Hang Qian Toll Road (「杭千公路」) imposed negative impact on the toll revenue of the Hangzhou Toll Road.

The Group has submitted a civil petition to the PRC court against the Hangzhou City government for judgement on the government compensation as the Group and the Hangzhou City government have not finalized the renewal agreement for compensation since the year 2006. In the meantime, the court has requested both parties to provide further information on toll traffic volume for its judgement. Therefore, no government compensation from the Hangzhou City government was received during the six months ended 30 June 2007.

During the six months ended 30 June 2007, an upgraded computerized toll collection monitoring system of the Hangzhou Toll Road was installed for enhancing the security of toll fee collection procedures and accuracy of traffic volume and toll collection figures to support the negotiation of government compensation with the Hangzhou City government.

Joint Venture in Hangzhou

Hangzhou Toll Road

Average daily toll traffic volume for the six months ended 30 June 2007 was approximately 6,900 vehicles (six months ended 30 June 2006: 6,800 vehicles), representing a 1% increase over the corresponding period in 2006. Weighted average toll fare per vehicle for non-registered vehicles for the six months ended 30 June 2007 was approximately RMB12.85 (six months ended 30 June 2006: RMB12.90), no significant difference as compared with the corresponding period in 2006.

Joint Ventures in Shanxi

Shanxi-Xiangyi Toll Road and Bridge

Average daily toll traffic volume for the six months ended 30 June 2007 was approximately 2,500 vehicles (six months ended 30 June 2006: 2,500 vehicles), no significant difference as compared with the corresponding period in 2006. Weighted average toll fare per vehicle for the six months ended 30 June 2007 was approximately RMB12.63 (six months ended 30 June 2006: RMB13.38), representing a 6% decrease to the corresponding period in 2006.

Shanxi-Linhong Toll Road and Bridge

Average daily toll traffic volume for the six months ended 30 June 2007 was approximately 220 vehicles (six months ended 30 June 2006: 12,900 vehicles), representing a 98% decrease to the corresponding period in 2006. Weighted average toll fare per vehicle for the six months ended 30 June 2007 was approximately RMB14.68 (six months ended 30 June 2006: RMB5.57), representing a 164% increase over corresponding period in 2006.

B. BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2006

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

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

A newly constructed expressway — Hang Qian began to be used by the end of the year 2005 and its fee collection station — Zhi Pu Lu (「之蒲路」) which commenced operations by the end of year 2006, have further intensified toll road competition in Hangzhou City and had a diversion effect on the toll revenue of the Group's Hangzhou Toll Road. The Group has adopted preventive measures to keep monitor the traffic flow and the effect of such traffic flow on the profitability of the 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 for the year ended 31 December 2006 representing a decrease of 92% from that of 2005 with the amount of HK$2,665,000, with a view to maintaining the profitability of the Group. Furthermore, streamlining measures and resources re-allocations have been carried out to minimise the administration costs of the Group in order to achieve cost-saving.

Joint Venture in Hangzhou

Hangzhou Toll Road

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

Joint Ventures in Shanxi

Shanxi-Xiangyi Toll Road and Bridge

The average daily toll traffic volume in 2006 was approximately 3,700 vehicles (2005: 5,100 vehicles), representing a 27% decrease to 2005. The weighted average toll fare per vehicle in 2006 was approximately RMB13.39 (2005: RMB13.52). There was no significant change as compared to 2005.

Shanxi-Linhong Toll Road and Bridge

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

C. BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2005

For the year ended 31 December 2005, the Group recorded an audited consolidated toll revenue of HK$29,423,000, representing a slight decrease of 2% as compared to HK$30,109,000 for the year ended 31 December 2004 and the profit attributable to equity holders of the Company was HK$5,835,000, representing an increase of 3% as compared to HK$5,673,000 for the year ended 31 December 2004. The decrease in toll revenue was attributable to the intense toll fare competition whilst the modest increase of the profit was mainly caused by savings in staff, repair and renovation expenses.

Under the intra-city toll free collection policy launched by the Hangzhou City government, all Hangzhou registered automobiles using the Group's Hangzhou Toll Road were exempted from toll payments and a daily compensation of RMB50,000 was granted to the Group by the Hangzhou City government since the year 2004 for compensating the Group against the reduction in the number of toll station in the Group's trunk highway and the Group's toll receipts. The Group has successfully renewed the agreement with the Hangzhou City government for continuously granting the said daily compensation for the year 2005 and that the government compensation in aggregate of HK$17,347,000 was granted by the Hangzhou City government to the Group.

Though traffic volume of Hangzhou registered automobiles increased by 26% as compared to 2004, toll revenues decreased owing to the diversion of Hangzhou non-registered automobiles from the use of the Group's Hangzhou Toll Road to its adjacent road and the effect of a series of new administrative policies implemented by the Zhejiang Province government during the year 2005.

On the other hand, the on-going repair and maintenance programs and additional environmental maintenance program for tree plantation along the Group's Hangzhou Toll Road taken to comply with the environmental policy of the Hangzhou City government have also achieved the Group's objective of upgrading the toll road operation, enhancing the safety standard of the road and ensuring smooth, comfortable and superb conditions of the toll road.

Joint Venture in Hangzhou

Hangzhou Toll Road

The average daily toll traffic volume in 2005 was approximately 8,200 vehicles (2004: 6,800 vehicles), representing a 21% increase over 2004. The weighted average toll fare per vehicle in 2005 was approximately RMB10.39 (2004: RMB12.84), representing a 19% decrease to 2004.

Joint Ventures in Shanxi

Shanxi-Xiangyi Toll Road and Bridge

The average daily toll traffic volume in 2005 was approximately 5,100 vehicles (2004: 3,900 vehicles), representing a 31% increase over 2004. The weighted average toll fare per vehicle in 2005 was approximately RMB13.52 (2004: RMB13.16), representing a 3% increase over 2004.

Shanxi-Linhong Toll Road and Bridge

The average daily toll traffic volume in 2005 was approximately 10,500 vehicles (2004: 9,300 vehicles), representing a 13% increase over 2004. The weighted average toll fare per vehicle in 2005 was approximately RMB5.21 (2004: RMB6.15), representing a 15% decrease to 2004.

D. BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2004

The audited consolidated toll revenue of the Group increased by 57% to HK$30,109,000 (2003: HK$19,194,000). The Group recorded a net profit of HK$6,216,000 (2003: net loss of HK$22,441,000). The improvement of the Group's results in 2004 was primarily caused by (i) the increase in traffic flow due to the changes in the traffic policies of Hangzhou City government, (ii) the compensation paid by the Hangzhou City government to the Group, and (iii) an effective management on cost control.

The total GDP in the PRC in 2004 increased as compared with that of 2003. The positive economic environment enhanced the development of road transportation and as well the traffic volume. During 2004, the Group's effort to enhance effective management on cost control and the compensation on toll collection from the Hangzhou City government yielded positive results.

In early 2003, a new and nearby toll road – Fu Yang toll road was launched which had adversely affected the traffic volume of the Group's Hangzhou Toll Road. However, owing to the free toll collection policy for intra-city car starting in 2004, the traffic volume of the Group's Hangzhou Toll Road increased significantly.

In addition, the reform of intra-city toll collection in Hangzhou City which reduced the number of toll stations on trunk highways and the intra-city toll free collection policy launched by the Hangzhou City government to the Group's Hangzhou Toll Road that all Hangzhou registered automobiles were exempted from toll payment which led to a reduction of the Group's toll receipts. The Group eliminated the negative impact from the said policies by agreeing with the Hangzhou City government that a daily compensation of RMB50,000 would be paid by the government.

During the year under review, internal controls were further strengthened by the installation of an upgraded computerized toll collection monitoring system which integrated toll data, streamlined toll collection procedures and allowed payments through banks. A large scale repair and maintenance program was carried out to assure safe, smooth and comfortable driving for road users. The program helped keep the toll road of the Group in good working conditions.

Joint Venture in Hangzhou

Hangzhou Toll Road

The average daily toll traffic volume in 2004 was approximately 6,800 vehicles (2003: 4,200 vehicles), representing a 62% increase over 2003. The weighted average toll fare per vehicle in 2004 was approximately RMB12.84 (2003: RMB13.30), representing a 3% decrease to 2003.

Joint Ventures in Shanxi

Shanxi-Xiangyi toll road and bridge

The average daily toll traffic volume in 2004 was approximately 3,900 vehicles (2003: 3,100 vehicles), representing a 26% increase over 2003. The weighted average toll fare per vehicle in 2004 was RMB13.16 (2003: RMB13.10).

Shanxi-Linhong toll road and bridge

The average daily toll traffic volume in 2004 was approximately 9,300 vehicles (2003: 11,400 vehicles), representing a 18% decrease to 2003. The weighted average toll fare per vehicle in 2004 was RMB6.15 (2003: RMB4.60), representing a 34% increase over 2003.

E. LIQUIDITY AND FINANCIAL RESOURCES

For the three years ended 31 December 2004, 31 December 2005, 31 December 2006 and the six months ended 30 June 2007, the Group recorded net cash inflow from its operations of approximately HK$10,364,000, HK$16,591,000, HK$9,061,000 and HK$494,000 respectively.

As at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007, the amounts of the Group's total assets were approximately HK$141,936,000, HK$156,399,000, HK$144,708,000 and HK$179,630,000 respectively.

As at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007, the amounts of the Group's total liabilities were approximately HK$23,715,000, HK$13,785,000, HK$3,297,000 and HK$2,025,000 respectively. As at 30 June 2007, the Group had no bank borrowings and other borrowings.

As at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007, the Group's cash on hand and in bank was in the sum of approximately HK$45,597,000, HK$17,865,000, HK$9,678,000 and HK$16,490,000 respectively, which represented approximately 87.8%, 31.5%, 97.6% and 34.9% of the current assets of the Group respectively.

As at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007, the Group had current ratios of 2.2 times, 20.2 times, 5.1 times and 23.3 times respectively.

The gearing ratios (total liabilities/total assets) of the Group as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007 were approximately 16.7%, 8.8%, 2.3% and 1.1% respectively.

For the year ended 31 December 2004, 31 December 2005, 31 December 2006 and for the six months ended 30 June 2007, the capital expenditures for the Group amounted to HK$168,000, HK$14,000, HK$2,000 and HK$2,000 respectively.

As at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007, there was no charge on the Group's assets.

During the six months ended 30 June 2007, the Company issued 118,900,000 top-up subscription Shares of par value of HK$0.10 each to Leading Highway Limited at a price of HK$0.35 per top-up subscription Share in accordance with a top-up subscription agreement dated 15 May 2007. The net proceeds from the top-up subscription amounted to approximately HK$40.3 million. In addition, the Group is optimistic about the outcome of the civil petition in respect of Hangzhou Toll Road, and is of the view that the financial position of the Group is positive. For the said six months period, net cash from operating activities of the Group amounted to approximately HK$494,000.

As at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007, the Group had no significant contingent liabilities and had minimal exposure to foreign exchange risk since the Group's revenue and expenditures were denominated in Hong Kong dollar and in Renminbi.

As at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007, the Group's cash and cash equivalents were held in Hong Kong dollars and Renminbi.

Capital structure

The capital structures of the Group as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007 were as follows:

	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at 30 June 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share capital	47,484	59,484	59,484	71,374
Reserve	(15,514)	(6,169)	691	27,715
	31,970	53,315	60,175	99,089

F. EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007, the Group had 52, 50, 42 and 42 employees respectively. 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.

G. 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 Hangzhou City and increasing demand for quality road passage are expected which should augur well for the future of the Group's Hangzhou Toll Road.

Furthermore, an upgrade of the computerized toll collection monitoring system of the Group's Hangzhou Toll Road is being installed to strengthen the Group's internal control system. This upgraded computerized system should enhance the security and monitoring of the Group's 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 a balance between smooth and conscious road maintenance and cost saving to maintain the profitability of the toll road operations as well.

2. THE PERRYVILLE GROUP

Track record of the Perryville Group

The table below sets out the consolidated income statements of the Perryville Group for three years ended 31 March 2005, 2006 and 2007.

	Year ended 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	76,074	83,305	88,001
Cost of sales	(62,285)	(61,680)	(58,612)
Gross profits	13,789	21,625	29,389
Other income	472	697	834
Administrative expenses	(10,949)	(16,098)	(12,511)
Finance costs	(2,781)	(1,270)	(1,508)
Profit before taxation	531	4,954	16,204
Income tax expense	(497)	(1,123)	(1,941)
Profit for the year	34	3,831	14,263

A. OVERVIEW

Tourism remains one of Hong Kong's major economic pillars. The industry continued to grow steadily in 2006, with the number of arrivals topping 25.25 million. Visitors from Europe, and South and Southeast Asia chalked up a double-digit growth in 2006. Arrivals to Hong Kong from the PRC totalled 13.59 million in 2006, representing an increase of 8.4% year-on-year (*Note 1*).

The average hotel occupancy rate in Hong Kong was 87% in 2006 and increased slightly from 86% in 2005. The number of room-nights in Hong Kong also rose following an increased supply of some 3,300 rooms, or a rise of 7.4% during the year 2006 (*Note 1*).

Several major tourist attractions came on stream in 2005 and 2006. They included the iconic theme park, Hong Kong Disneyland, the nightly light and sound show called 'A Symphony of Lights', the Hong Kong Wetland Park, and a cable car ride linked to a cultural and religious themed village, called Ngong Ping 360.

Besides, Hong Kong is widely recognised as the conventions and exhibitions capital of Asia and continues to attract leading international events to its shores. According to Hong Kong Yearbook 2006, this sector continued to perform strongly in 2006 with the staging of some 218 conventions and 78 exhibitions, attracting more than 779,000 international visitors.

The Perryville Group is principally engaged in the provision of limousine and airport shuttle transportation services in Hong Kong. Perryville is an investment holding company which holds two wholly-owned subsidiaries, Parklane Limousine and Airport Shuttle.

Parklane Limousine has been in operation since 1990 and provides limousine services between hotels and the Hong Kong International Airport. Airport Shuttle provides shuttle transportation services between hotels and the Hong Kong International Airport. The growth in the number of travelers stimulates the demand for limousine and airport shuttle transportation services which in turn creates business opportunities for the Perryville Group.

Note 1: Source: Hong Kong Yearbook 2006

B. ANALYSIS ON THE RESULTS OF THE OPERATION OF THE PERRYVILLE GROUP DURING THE THREE YEARS ENDED 31 MARCH 2007

Revenue

The table below sets out the breakdown of the Perryville Group's revenue by major business activities for the three years ended 31 March 2005, 2006 and 2007.

	Year ended 31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
Limousine rental services	56,345	62,731	67,784
Airport shuttle rental services	19,729	20,574	20,217
Total	76,074	83,305	88,001

For the year ended 31 March 2005, the revenue of the Perryville Group amounted to approximately HK$76.1 million, which was mainly derived from the provision of the limousine rental services amounted to HK$56.3 million. The Perryville Group also provides shuttle transportation services between hotels and the Hong Kong International Airport. For the year ended 31 March 2005, the amount of revenue generated from the provision of the airport shuttle rental services amounted to approximately HK$19.7 million.

For the year ended 31 March 2006, the revenue of the Perryville Group amounted to approximately HK$83.3 million, representing an increase of approximately 9.5% from that of 2005. Revenue derived from the limousine rental services amounted to approximately HK$62.7 million, representing an increase of approximately 11.3% from that of 2005, whilst the revenue derived from the airport shuttle rental services amounted to approximately HK$20.6 million, representing an increase of approximately 4.3% from that of 2005.

For the year ended 31 March 2007, the revenue of the Perryville Group amounted to approximately HK$88 million, representing an increase of approximately 5.6% from that of 2006. Revenue derived from the limousine rental services amounted to approximately HK$67.8 million, representing an increase of approximately 8.1% from that of 2006, whilst the revenue derived from the airport shuttle rental services amounted to approximately HK$20.2 million, representing a decrease of approximately 1.7% from that of 2006.

As stated above, according to the Hong Kong Yearbook 2006, the tourism industry in Hong Kong made another new record in 2006 with over 25 million visitor arrivals. The average hotel occupancy in Hong Kong was about 87% in 2006, up slightly from 86% in 2005. The number of room nights rose due to the increase in hotel room supply by some 3,300 rooms or 7.4% during the same period.

With the steady growth of the number of visitor arrivals in Hong Kong, the general demand for the limousine and airport shuttle transportation services increased over the three years ended 31 March 2007.

Cost of sales

The cost of sales of the Perryville Group for the three years ended 31 March 2005, 2006 and 2007 were approximately HK$62.3 million, HK$61.7 million and HK$58.6 million respectively. Cost of sales mainly comprised depreciation costs for motor vehicles, gasoline and oil costs, local motor vehicle hiring charges, repair and maintenance costs, salaries and allowances and other expenses.

Gross profit

The gross profit margin of the Perryville Group increased from approximately 18.1% for the year ended 31 March 2005 to approximately 26% for the year ended 31 March 2006. For the year ended 31 March 2007, the gross profit of the Perryville Group amounted to approximately HK$29.4 million, representing a gross profit margin of approximately 33.4%.

The segment profits for the limousine rental services of the Perryville Group for the years ended 31 March 2005, 31 March 2006 and 31 March 2007 amounted to approximately HK$9.1 million, HK$12.3 million and HK$17.4 million respectively. The major reason for the increase in the segment profit was due to the increase in service fees charged by Parklane Limousine to its hotel customers.

On the other hand, the airport shuttle rental services segment of the Perryville Group recorded a segment loss of approximately HK$3.2 million and HK$2.7 million respectively for the years ended 31 March 2005 and 31 March 2006.

For the year ended 31 March 2007, the Perryville Group's airport shuttle rental services turned around and recorded a segment profit of approximately HK$4.3 million.

Airport Shuttle provides shuttle transportation services between hotels and the Hong Kong International Airport. It commenced operation in 1998 by offering the above services through its own fleet of about 25 buses. In 2005, it changed its business model. In June 2005, Airport Shuttle and Parklane Limousine, among others, entered into a sale and purchase agreement and collaboration agreement with Trans-Island Limousine Services Limited (an independent third party not connected with the Vendor or the Company). Under the sale and purchase agreement, Trans-Island Limousine Services Limited acquired Airport Shuttle's entire fleet of buses. Pursuant to the collaboration agreement which is for a term up to August 2010, Airport Shuttle and Parklane Limousine have appointed Trans-Island Limousine Service Limited as a sub-contractor to provide the airport shuttle services to and from the Hong Kong International Airport for hotels and travel agents which have contracted with Airport Shuttle and Parklane Limousine. Airport Shuttle and Parklane Limousine will pay fees to Trans-Island Limousine Services Limited based on the number of passengers to whom Trans-Island Limousine Services Limited provides shuttle services under the collaboration agreement. Airport Shuttle has granted an exclusive licence to Trans-Island Limousine Services Limited to use and display the logo and name of Airport Shuttle on the buses of Trans-Island Limousine Services Limited used for providing the shuttle services under the collaboration agreement.

With the change in business model for the airport shuttle rental services, the profitability of the segment improved as costs like fuel cost, staff cost, repair and maintenance cost were saved.

Other income

For the three years ended 31 March 2007, other income mainly comprised insurance compensation, bank interests, income from providing greeting services to hotels, hire car income and sundry income.

Administrative expenses

The administrative expenses of the Perryville Group for the three years ended 31 March 2005, 2006 and 2007 were approximately HK$10.9 million, HK$16.1 million and HK$12.5 million respectively. For the year ended 31 March 2005, the administrative expenses mainly comprised salaries and allowances, staff's provident fund contributions and entertainment cost. For the year ended 31 March 2006, the administrative expenses mainly comprised salaries and allowances, loss on disposal of fixed assets and directors' emoluments. For the year ended 31 March 2007, the administrative expenses mainly comprised salaries and allowances, directors' emoluments, office rental and rates and entertainment costs.

Finance costs

For the three years ended 31 March 2005, 2006 and 2007, the finance costs of the Perryville Group amounted to approximately HK$2.8 million, HK$1.3 million and HK$1.5 million respectively. The effective interest rates of the Perryville Group's bank borrowings increased: 2005 (4.81% to 5%); 2006 (5.11% to 7.08%) and 2007 (5.88% to 7.9%).

Taxation

The Perryville Group recorded tax expenses of approximately HK$0.5 million, HK$1.1 million and HK$1.9 million respectively for the three years ended 31 March 2005, 2006 and 2007.

Profit attributable to shareholders

The profit attributable to shareholders for the three years ended 31 March 2005, 2006 and 2007 amounted to approximately HK$34,000 and HK$3.8 million and HK$14.3 million respectively.

C. ANALYSIS ON THE FINANCIAL POSITION OF THE PERRYVILLE GROUP DURING THE THREE YEARS ENDED 31 MARCH 2007

Liquidity and financial resources

For each of the year ended 31 March 2005, 31 March 2006 and 31 March 2007, the Perryville Group recorded net cash inflow from its operations of approximately HK$5.4 million, HK$17.5 million and HK$21 million respectively. For the year ended 31 March 2007, the Perryville Group recorded net cash inflow of approximately HK$6.7 million.

As at 31 March 2005, 31 March 2006 and 31 March 2007, the amounts of the Perryville Group's total assets were approximately HK$43.5 million, HK$52.7 million and HK$61.9 million respectively.

As at 31 March 2005, 31 March 2006 and 31 March 2007, the amounts of the Perryville Group's total liabilities were approximately HK$51 million, HK$56.4 million and HK$51 million respectively.

As at 31 March 2005, 31 March 2006 and 31 March 2007, the balances of the Perryville Group's cash and cash equivalents were in the sum of approximately HK$1.8 million, HK$3.6 million and HK$10.3 million respectively and represented approximately 13%, 12.7% and 41.7% of the total current assets of the Perryville Group respectively.

As at 31 March 2005, 31 March 2006 and 31 March 2007, the Group had current ratios of 0.28 time, 0.6 time and 0.58 time respectively.

As at 31 March 2005, 2006 and 2007, the Perryville Group's short-term bank borrowings amounted to approximately HK$16.4 million, HK$15.3 million and HK$27.9 million respectively and the amount due to its immediate holding company amounted to approximately HK$22.4 million, HK$22.4 million and HK$5.7 million respectively. Bank borrowings due over one year amounted to approximately HK$6.2 million and HK$3.7 million respectively for the year ended 31 March 2006 and 31 March 2007. There was no bank borrowing due over one year for the year ended 31 March 2005. The gearing ratios (total liabilities/total assets) of the Perryville Group as at 31 March 2005, 31 March 2006 and 31 March 2007 were 117.2%, 107% and 82.4% respectively.

The Perryville Group has pledged certain of its motor vehicles with an aggregate carrying value of approximately HK$19,500,000 HK$19,921,000 and HK$33,124,000 as at 31 March 2005, 2006 and 2007 respectively to secure the banking facilities granted to the Perryville Group.

The Perryville Group generally finances its funding requirements with bank borrowings and advance from its immediate holding company. After completion of the Acquisition, the Group will provide necessary financial support to the Perryville Group.

Net current liabilities

The Perryville Group had net current liabilities of approximately HK$35.6 million, HK$19 million and HK$17.7 million as at 31 March 2005, 31 March 2006 and 31 March 2007 respectively. The current ratios of the Perryville Group as at 31 March 2005, 31 March 2006 and 31 March 2007 were approximately 0.28 time, 0.60 time and 0.58 time respectively. Over the reporting years, the amount of net current liabilities of the Perryville Group had decreased. The major reason for such improvement was the strengthening of the Perryville Group's current asset position as a result of improvement of the segment profit from the limousine rental services and change in business model of the airport shuttle rental services. The Perryville Group has been supporting its net current liabilities by its operating cash inflow.

Capital and other commitments

As at 31 March 2005, 31 March 2006 and 31 March 2007, the operating lease commitments in relation to certain operating lease arrangements of the Perryville Group amounted to approximately HK$1 million, HK$3.3 million and HK$3.3 million respectively. Capital commitments in respect of acquisitions of plant and equipment amounted to approximately HK$1.2 million and HK$4.9 million respectively for the year end 31 March 2006 and 31 March 2007.

Save as disclosed above, the Perryville Group had no other capital commitments as at 31 March 2005, 31 March 2006 and 31 March 2007.

Contingent liabilities

The Perryville Group did not have any material contingent liabilities as at 31 March 2005, 31 March 2006 and 31 March 2007.

Capital structure

The capital structures of the Perryville Group as at 31 March 2005, 31 March 2006 and 31 March 2007 were as follows:

	As at 31 March 2005	**As at 31 March 2006**	**As at 31 March 2007**
	HK$'000	*HK$'000*	*HK$'000*
Share capital	5,010	5,010	5,400
Reserve	(12,518)	(8,687)	5,576
	(7,508)	(3,677)	10,976

Currency exchange risk

As at 31 March 2005, 31 March 2006 and 31 March 2007, the Perryville Group's borrowings were made in Hong Kong dollars. Cash and cash equivalents were held in Hong Kong dollars.

The management of the Perryville Group does not consider that the Perryville Group is exposed to any significant foreign currency risk.

D. STAFF, REMUNERATION POLICIES, STOCK OPTION SCHEME AND RETIREMENT BENEFITS

As at 31 March 2005, 31 March 2006 and 31 March 2007, the Perryville Group had a total of around 139, 133 and 140 full time staff.

In addition to salaries, the Perryville Group provides staff benefits including employment ordinance long service payments and retirement benefit scheme.

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

27 September 2007

The Directors
Wah Nam International Holdings Limited
Room 902, 9th Floor
East Ocean Centre
No. 98 Granville Road
Tsim Sha Tsui East
Kowloon
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by the Enlarged Group in the People's Republic of China ("the PRC") and the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at the 31 July 2007 ("date of valuation") for the purpose of incorporation in the circular.

Our valuation is our opinion of the market value of the property interest which we would define market value as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

It is our opinion that the property interest in Group I has no commercial value. We have reached this opinion on the basis the interests of the Enlarged Group in the land of the property and the buildings erected thereon are interests only as licensees for the duration of the periods of the Hangzhou Huanan Engineering Development Company Limited ("Hangzhou JV"). At the end of the terms of the Hangzhou JV, the interests of the Enlarged Group in the property will cease. The property interest therefore has no market value.

For property interests in Group II which are rented by the Enlarged Group in Hong Kong, we have assigned no commercial value to them mainly due to the prohibition against assignment or sub-letting, or otherwise due to the lack of substantial profit rents.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

We have not caused title searches to be made for the property interest at the relevant government bureau in the PRC. For the property interests in Hong Kong, we have caused searches to be made at the Land Registry. We have been provided with certain extracts of title documents relating to the property interest in the PRC. However, we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interest, we have relied on the legal opinion ("the PRC legal opinion") provided by the Company's PRC legal adviser, Global Law Office.

We have relied to a considerable extent on information provided by the Enlarged Group and have accepted advice given to us by the Enlarged Group on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of the property and other relevant matter. We have also been advised by the Enlarged Group that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only.

All dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Enlarged Group and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the properties are free from defect. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Our valuation is prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors (HKIS) and the requirements set out in Chapter 5 and Practice Note 12 to the Rule Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars (HK$). The exchange rate used in valuing the property in the PRC as at 31 July 2007 was HK$1=RMB0.968. There has been no significant fluctuation in the exchange rate for Renminbi (RMB) against Hong Kong Dollars between that date and the date of this letter.

We enclose herewith a summary of valuation and the valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS MSc(e-com)
Executive Director

Note : Mr. Raymond Ho Kai Kwong, Chartered Surveyor, MRICS MHKIS MSc(e-com), has over nineteen years' experiences in undertaking valuations of properties in Hong Kong and has over twelve years' experiences in valuations of properties in the PRC.

SUMMARY OF VALUATION

Group I – Property interest held for investment by the Enlarged Group in the PRC

	Property	Market Value as at 31 July 2007
1.	3 collection lanes for the transportation in the direction of Fuyang City to Hangzhou City and ancillary buildings and facilities along a toll road of 11.934 kilometres of National Highway 320 within the territory of Hangzhou City from Shanhusha to Jinjialing, Zhejiang Province, the PRC, being the Hangzhou Toll Road	No commercial value

Group II – Property interest leased by the Enlarged Group for its occupation in Hong Kong

	Property	Market Value as at 31 July 2007
2.	Unit 702, 7th Floor, Yue Hwa International Building, No. 1 Kowloon Park Drive, Tsim Sha Tsui, Kowloon, Hong Kong	No commercial value
3.	Unit 401, 4th Floor, Yue Hwa International Building, No. 1 Kowloon Park Drive, Tsim Sha Tsui, Kowloon, Hong Kong	No commercial value
4.	Counters A16 and B16, Hong Kong International Airport, Chep Lap Kok, Lantau Island, New Territories, Hong Kong	No commercial value
	Total	**No commercial value**

VALUATION CERTIFICATE

Group I – Property interest held for investment by the Enlarged Group in the PRC

	Property	Description	Particulars of occupancy	Market Value as at 31 July 2007
1.	3 collection lanes for the transportation in the direction of Fuyang City to Hangxhou City and ancillary buildings and facilities along a toll road of 11.934 kilometres of National Highway 320 within the territory of Hangzhou City from Shanhusha to Jinjialing, Zhejiang Province, the PRC, being the Hangzhou Toll Road	The expressway is a first-class, partly closed road with a total length of approximately 11.934 kilometres. It is a dual-2-lane national highway between Hangzhou City and Fuyang City with designed speed of 100 km/h. The property comprises 3 collection lanes for transportation in the direction of Fuyang City to Hangzhou City and ancillary buildings and facilities along the expressway. The ancillary buildings and facilities of the property have a total gross floor area of approximately 408.36 sq.m. completed in or about 1998.	The property is occupied and operated by Hangzhou JV.	No commercial value

Notes:

1. According to the Contract dated 6 October 1994, Hangzhou Huanan Engineering Development Company Limited (Hangzhou JV) has concession rights over the Hangzhou Toll Road for 30 years up to 3 April 2024 and is entitled to the tolls between Fuyang City and Hangzhou City in the westbound direction only.

2. The PRC legal opinion states, inter alia, the following:

   (i) Hangzhou JV is a joint venture established by 杭州交通投資有限公司 (Party A), 杭州路達公路工程總公司 (Party B) and Cableport Holdings Limited (Party C). The contributed capital injected by them , representing the percentage of equities or interests to which they are entitled, is listed as below:

	Contributed Capital (Approximate)	Percentage of Equities or Interests
Party A	RMB57,351,844	33.7%
Party B	RMB10,648,156	6.3%
Party C	RMB102,000,000	60%

   (ii) Hangzhou JV has an operation period of 30 years from 4 April 1994 to 3 April 2024.

   (iii) Hangzhou JV is entitled to occupy and use the property within the operation period.

   (iv) Hangzhou JV does not possess the State-own land use rights and ownership of the property. The land use rights and ownership of the property is still possessed by the PRC government.

3. It is our opinion that the property has no commercial value. We have reached this opinion on the basis the interests of the Enlarged Group in the land of the property and the buildings erected thereon are interests only as licensees for the duration of the periods of the Hangzhou Huanan Engineering Development Company Limited (“Hangzhou JV”). At the end of the terms of the Hangzhou JV, the interests of the Enlarged Group in the property will cease. The property interest therefore has no market value.

Group II – Property interest leased by the Enlarged Group for its occupation in Hong Kong

	Property	Description	Particulars of occupancy	Market Value as at 31 July 2007
2.	Unit 702, 7th Floor, Yue Hwa International Building, No. 1 Kowloon Park Drive, Tsim Sha Tsui, Kowloon, Hong Kong	The property comprises an office unit on the 7th Floor of an 18-storey (including a basement) commercial building completed in 1976. The property has a gross floor area of approximately 2,340 sq.ft. (217.39 sq.m.).	The property is leased to the Parklane Limousine Service Limited by Onesime Limited, an independent party, for a term of two years from 1 December 2005 to 30 November 2007 at a monthly rent of HK$37,440, exclusive of management fee, rates and air conditioning charge. The property is occupied by Parklane Limousine Service Limited as office.	No commercial value

Notes:

1. According to the Land Register, the current registered owner of the property is the landlord, Onesime Limited.
2. Pursuant to a Tenancy Agreement dated 14 June 2007, the property will be further leased to the Enlarged Group for a term of two years from 1 December 2007 to 30 November 2009 at a monthly rent of HK$42,000, exclusive of management fee, rates and air conditioning charge.
3. The property is held under a Government Lease of Kowloon Inland Lot No. 6063 for a term of 75 years commencing from 25 June 1875 with the right of renewal for a further term of 75 years. The current ground rent for the whole lot of the property is HK$716 per annum.

	Property	Description	Particulars of occupancy	Market Value as at 31 July 2007
3.	Unit 401, 4th Floor, Yue Hwa International Building, No. 1 Kowloon Park Drive, Tsim Sha Tsui, Kowloon, Hong Kong	The property comprises an office unit on the 4th Floor of an 18-storey (including a basement) commercial building completed in 1976. The property has a gross floor area of approximately 1,310 sq.ft. (121.70 sq.m.).	The property is leased to the Parklane Limousine Service Limited by Onesime Limited, an independent party, for a term of two years from 17 August 2006 to 16 August 2008 at a monthly rent of HK$25,000, exclusive of management fee, rates and air conditioning charge. The property is occupied by Parklane Limousine Service Limited as office.	No commercial value

Note:

1. According to the Land Register, the current registered owner of the property is the landlord, Onesime Limited.
2. The property is held under a Government Lease of Kowloon Inland Lot No. 6063 for a term of 75 years commencing from 25 June 1875 with the right of renewal for a further term of 75 years. The current ground rent for the whole lot of the property is HK$716 per annum.

	Property	Description	Particulars of occupancy	Market Value as at 31 July 2007
4.	Counters A16 and B16, Hong Kong International Airport, Chep Lap Kok, Lantau Island, New Territories, Hong Kong	The property comprises two service counters in the Arrival Hall of the Passenger Terminal Building of the Hong Kong International Airport completed in 1997. The property has a total gross floor area of approximately 16 sq.m.	The property is licensed to Parklane Limousine Service Limited by Airport Authority, an independent party, for a term of one year from 1 July 2007 to 30 June 2008 at a licence fee of HK$170,000, exclusive of management fee, rates and government rent. The property is occupied by Parklane Limousine Service Limited as service counters.	No commercial value

Note:

1. According to the Land Register, the current registered owner of the property is the licensor, Airport Authority.

2. The property is held under New Grant No. IS7996 for a term from 1 December 1995 to 30 June 2047. The current government rent for the property is 3% of the rateable value of the property per annum.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and the Enlarged Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiry, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) 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 they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of HK$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cheng Yung Pun (Chairman)	Controlled corporation *(Note)*	445,500,000	62.42%

Note: These Shares are held by Leading Highway Limited, a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is wholly owned by Mr. Cheng Yung Pun.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) 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 they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executive of the Company, the following persons, not being a Director or chief executive of the Company, had interests and/or short positions in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(i) Long positions in ordinary shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Leading Highway Limited *(Note 1)*	Beneficial owner	445,500,000	62.42%
Parklane International Holdings Limited	Beneficial owner	285,714,285	40.03%
Leung Chi Yan *(Note 2)*	Interest held by controlled corporation	285,714,285	40.03%

Notes:

1. Leading Highway Limited, a company incorporated in the British Virgin Islands, which is beneficially owned by Mr. Cheng Yung Pun. Mr. Cheng Yung Pun is the director of Leading Highway Limited.

2. The 285,714,285 Conversion Shares derived from the Convertible Note in the amount of HK$120,000,000, are held by Parklane International Holdings Limited which is 100% held by Leung Chi Yan.

(ii) Long positions in share of subsidaries of the Company

As at the Latest Practicable Date, the following corporation (not being a member of the Group, a Director or the chief executive of the Company) was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of the following member of the Group:

Name of subsidiary	Name of shareholder	Percentage of interest in the subsidiary
杭州華南工程開發有限公司	杭州交通投資有限公司	33.7%

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors or chief executive of the Company are aware, no person (other than certain Directors or chief executive of the Company or any other member of the Group), has any interests or short position in the Shares or underlying shares of the Company which fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO (including interests and short position which they are taken or deemed to have under such provision of the SFO) or who is directly or indirectly interested in 10% or more of the nominal value of any class of shares carrying rights to vote in all circumstances at general meetings of any members of the Group.

3. DIRECTORS' OTHER INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware, none of themselves or their respective associates had any interest in a business which competes or may compete with the business of the Enlarged Group or any other conflicts of interests with the Enlarged Group.

As at the Latest Practicable Date, none of the Directors, had any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Company since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up.

There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Enlarged Group.

4. LITIGATION

The intra-city toll free collection policy launched by the Hangzhou City government to the Group's 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, a civil petition 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 2006. In the meantime, the court has requested both parties to provide further information on toll traffic volume for its judgement.

Save as the aforesaid, none of the members of the Enlarged Group was engaged in any litigation of material importance and no litigation of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group as at the Latest Practicable Date.

5. CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Cheng Yung Pun (Chairman)
Yu Sui Chuen
Cheng Wing See, Nathalie

Non-executive Director

Luo ZhiJian

Independent Non-executive Directors

Au-Yeung Tsan Pong, Davie
Fung Ka Choi
Wong Chu Fung

AUDIT COMMITTEE & REMUNERATION COMMITTEE

Au-Yeung Tsan Pong, Davie (Chairman)
Fung Ka Choi
Wong Chu Fung

QUALIFIED ACCOUNTANT

Wong Man Yee

COMPANY SECRETARY

Lai Mei Fong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor
One Pacific Place
88 Queensway
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL PLACE OF BUSINESS

Room 902, 9/F.
East Ocean Centre
98 Granville Road
Tsimshatsui East
Kowloon, Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

WEBSITE

www.irasia.com/listco/hk/wahnam

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Enlarged Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

7. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have provided its advice and reports (as the case may be), which are contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu ("Deloitte")	Certified Public Accountants
Vigers Appraisal & Consulting Limited ("Vigers")	Qualified property valuer, Chartered Surveyor

Deloitte and Vigers have given and have not withdrawn their written consents to the issue of this circular with the inclusion herein of their respective letters and/or references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, Deloitte and Vigers were not beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group.

As at the Latest Practicable Date, none of Deloitte and Vigers had any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Company since 31 December 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. MATERIAL CONTRACTS

The following contracts had been entered into by the Enlarged Group (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date and are or may be material:

(a) The S&P Agreement.

(b) The top-up subscription agreement dated 15 May 2007 entered into between the Company and Leading Highway Limited under which the Company had issued 118,900,000 top-up subscription shares of par value of HK$0.10 each to Leading Highway Limited at a price of HK$0.35 per share. The net proceeds from the top-up subscription were approximately HK$40.3 million.

(c) An agreement entered into with the Hangzhou City government in January 2005 for a daily compensation of RMB50,000 to compensate its adoption of free toll collection policy for intra-city car against one of the Company's subsidiaries.

(d) Airport Shuttle and Parklane Limousine, among others, entered into a sale and purchase agreement with Trans-Island Limousine Service Limited on 6 June 2005 pursuant to which Trans-Island Limousine Service Limited acquired Airport Shuttle's entire fleet of buses.

(e) A shuttle bus service collaboration agreement dated 6 June 2005 which is for a term up to August 2010, Airport Shuttle and Parklane Limousine have appointed Trans-Island Limousine Service Limited as a sub-contractor to provide the airport shuttle services to and from the Hong Kong International Airport for hotels and travel agents which have contracted with Airport Shuttle and Parklane Limousine. Airport Shuttle and Parklane Limousine will pay fees to Trans-Island Limousine Service Limited based on the number of passengers to whom Trans-Island Limousine Service Limited provides shuttle services under the collaboration agreement. Airport Shuttle has granted an exclusive licence to Trans-Island Limousine Service Limited to use and display the logo and name of Airport Shuttle on the buses of Trans-Island Limousine Service Limited used for providing the shuttle services under the collaboration agreement.

Save as the aforesaid, no material contracts (not being contract entered into in the ordinary course of business) had been entered into by any member of the Enlarged Group within the two years immediately preceding the Latest Practicable Date which are or may be material.

9. SECRETARY AND QUALIFIED ACCOUNTANT OF THE COMPANY

The secretary of the Company is Lai Mei Fong. Ms. Lai holds a master degree of business administration and is an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrator.

The qualified accountant of the Company is Wong Man Yee. Ms. Wong is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

10. PROCEDURES FOR THE DEMAND BY POLL

The following paragraphs set out the procedure by which the Shareholders may demand a poll at a general meeting of the Company pursuant to the current Bye-laws.

According to clause 66 of the current Bye-laws, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

(i) the chairman of such meeting;

(ii) at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) a Shareholder or Shareholders present in person or (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(iv) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right; or

(v) the rules and regulations prescribed by the Designated Stock Exchange from time to time.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to and including the date of SGM:

(a) the memorandum and bye-laws of the Company;

(b) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(c) the accountants' report on the Perryville Group, the text of which is set out in Appendix II to this circular;

(d) the annual reports of the Company for each of the three financial years ended 31 December 2006 and interim report of the Company for the six months ended 30 June 2007;

(e) a letter signed by Deloitte Touche Tohmatsu setting out their opinion on the adjustments made on the pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;

(f) the letter, summary of valuation and valuation certificates relating to the property interests of the Enlarged Group, prepared by Vigers Appraisal & Consulting Limited, the texts of which are set out in Appendix V to this circular;

(g) the written consents referred to under the section headed "Experts and Consents" in this appendix.

12. MISCELLANEOUS

- The correspondence address of the Directors is at Room 902, 9/F, East Ocean Centre, 98 Granville Road, Tsimshatsui East, Kowloon, Hong Kong;
- The correspondence address of the Company is at Room 902, 9/F, East Ocean Centre, 98 Granville Road, Tsimshatsui East, Kowloon, Hong Kong;
- The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda;
- The branch share registrar of the Company in Hong Kong is Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong; and
- The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in case of inconsistency.

WAH NAM INTERNATIONAL HOLDINGS LIMITED
華南投資控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 159)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT a special general meeting (the "SGM") of Wah Nam International Holdings Limited (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 15 October 2007, Monday, at 2:30 p.m. for the following purposes of considering and, if though fit, passing, with or without modifications, the following resolution:

ORDINARY RESOLUTION

(1) **"THAT:**

(a) the sale and purchase agreement dated 13 June 2007 (the **"S&P Agreement"**), entered into by the Company and Parklane International Holdings Limited, (the **"Vendor"**) pursuant to which the Vendor has agreed to sell and the Company has agreed to acquire the entire issued share capital of Perryville Group Limited, details of the S&P Agreement are set out in the circular of the Company dated 27 September 2007 (the **"Circular"**) (a copy of the S&P Agreement and the Circular having been produced to the meeting marked **"A"** and **"B"** respectively and initiated for the purposes of identification by the chairman of the meeting) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) upon completion of the S&P Agreement, the directors of the Company be hereby authorised to issue the convertible note(s) of face value of HK$120 million (the "**Convertible Note**") pursuant to the S&P Agreement as part consideration for the acquisition under the S&P Agreement (a copy of the terms and conditions of the Convertible Note is appended to the S&P Agreement and a summary of the details of the terms and conditions are set out in the Circular);

(c) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant the listing of, and permission to deal in, the Conversion Shares (as defined below), the directors of the Company be and are hereby generally and unconditionally authorised to issue and allot such number of new shares (the **"Conversion Shares"**) of HK$0.10 each in the capital of the Company, credited as fully paid, to the holder(s) of the Convertible Note (or its/their nominee), upon conversion of the Convertible Note (in part or in full) and that the Conversion Shares, when issued and allotted, shall rank pari passu in all respects with all other shares of HK$0.10 each in the capital of the Company in issue as at the date of such issue and allotment; and

(d) any one director of the Company be and is hereby generally and unconditionally authorised to do all such acts and things, to sign and execute all such further documents for and on behalf of the Company by hand, or in case of execution of documents under seal, to do so jointly with any of a second director, a duly authorised representative of the director or the secretary of the Company and to take such steps as he/she may in his/her absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the transactions under the S&P Agreement"

BY ORDER OF THE BOARD
LAI MEI FONG
COMPANY SECRETARY

Hong Kong, 27 September 2007.

Head office and principal place of business in Hong Kong:

Room 902, 9/F.
East Ocean Centre
98 Granville Road
Tsimshatsui East
Kowloon, Hong Kong

Notes:

1. A member entitled to attend and vote at the above meeting (or at any adjournment thereof) is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any shares, any one of such persons may vote at the above meeting (or at any adjournment thereof), either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the above meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

3. In order to be valid, the forms of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority (such certification to be made by either a notary public or a solicitor qualified to practise in Hong Kong), must be deposited with the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the above meeting or any adjournment thereof.

4. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

5. The Chairman intends to demand poll voting for the resolution set out in the notice of the SGM.

As at the date hereof, 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.

* *For identification purpose only*