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
SPECIFIC MANDATE TO ISSUE NEW SHARES
INCREASE IN AUTHORISED SHARE CAPITAL
AND
NOTICE OF SPECIAL GENERAL MEETING

Financial adviser to the Company

Piper Jaffray

A letter from the board of directors of Wah Nam International Holdings Limited is set out on pages 8 to 36 of this circular.

A notice convening a special general meeting of Wah Nam International Holdings Limited to be held at Mont Blanc Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Friday, 18 July 2008, at 10:45 a.m. is set out on pages N-1 to N-4 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 meeting. 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.

30 June 2008

* *For identification purpose only*

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Pages

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 in the Target Company by the Company from the Vendors pursuant to the S&P Agreement (as amended by the Supplemental Deed)
"Airport Shuttle"	Airport Shuttle Services Limited, a company incorporated in Hong Kong and beneficially wholly-owned by the Group
"Announcement"	the announcement of the Company dated 12 February 2008 in respect of the Acquisition
"associate(s)"	has the meaning ascribed to it in the Listing Rules
"BDASIA"	Behre Dolbear Asia, Inc. ("BDASIA"), a subsidiary of Behre Dolbear & Company, Inc., the independent technical advisor to undertake an independent technical review of the Damajianshan Mine
"Board"	the board of Directors
"Business Day"	any day (excluding Saturdays, Sundays, public holidays and days on which a tropical cyclone warning No. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks are open for general banking business in Hong Kong
"BVI"	British Virgin Islands
"Bye-laws"	the bye-laws of the Company
"Cableport Group"	Cableport Holdings Limited (a company incorporated in BVI with limited liability and a wholly-owned subsidiary of the Company) and its subsidiary, which are engaged in the management and operation of toll roads in the PRC
"Circular"	the circular of the Company dated 27 September 2007 in relation to a very substantial acquisition
"Company"	Wah Nam International Holdings Limited (華南投資控股有限公司*), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange

"Completion"	completion of the Acquisition in accordance with the terms and conditions of the S&P Agreement and the Supplemental Deed
"Completion Date"	the date of fulfillment of the conditions precedent set out in the S&P Agreement and the Supplemental Deed or such other date as the parties may agree in writing, on which Completion shall take place in accordance with the terms thereof
"Completion Long Stop Date"	31 December 2008, or such other date as the parties may agree in writing
"Consideration Shares"	315,666,000 new Shares to be issued and allotted by the Company to the Vendors under the S&P Agreement and the Supplemental Deed to satisfy part of the Total Consideration
"Conversion Rights"	the right of Noteholder (and its assignees or transferees pursuant to the conditions of the Convertible Notes) at any time on any Business Day before the Maturity Date, to convert the whole or part of the principal amount of the Convertible Notes into shares in the issued share capital of the Company
"Conversion Shares"	shares to be issued by the Company upon exercise of the Conversion Rights
"Convertible Note(s)"	the convertible note(s) in the aggregate principal amount of HK$435,500,000 to be issued by the Company in favour of some of the Vendors to satisfy part of the Total Consideration pursuant to the S&P Agreement and the Supplemental Deed with the benefit of and subject to the terms and conditions of the convertible note
"Deposit"	HK$60,000,000 payable to the First Vendor within two months after the SGM as past payment of the Total Consideration and deposit
"Directors"	the directors of the Company
"Eighth Vendor" or " Gracious Fortune"	Gracious Fortune Investment Limited, a company incorporated in the BVI with limited liability and wholly owned by an Independent Third Party. The principal business activity of the Eighth Vendor is investment holding

"Enlarged Group"	the Group as enlarged by the Acquisition
"Fifth Vendor" or "Top Respect"	Top Respect Holdings Limited, a company incorporated in the BVI with limited liability and wholly owned by an Independent Third Party. The principal business activity of the Fifth Vendor is investment holding
"First Vendor" or "Talent Zone"	Talent Zone Investment Limited, a company incorporated in the BVI with limited liability, which is wholly owned by an Independent Third Party. The principal business activity of the First Vendor is investment holding
"Fourth Vendor" or "Wander Profits"	Wander Profits Investment Limited, a company incorporated in the BVI with limited liability, which is wholly owned by an Independent Third Party. The principal business activity of the Fourth Vendor is investment holding
"g"	gram
"g/t"	gram per ton
"Group"	the Company and its subsidiaries
"HKFRS"	Hong Kong Financial Reporting Standards
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party (Parties)"	a third party independent of the Company and its connected persons (as defined under the Listing Rules)
"Initial Conversion Price"	the initial conversion price of HK$0.30 per Conversion Share
"Issue Price"	HK$0.30 per Consideration Share
"kt"	kiloton
"Last Trading Date"	29 January 2008, being the last trading day prior to the entering into of the S&P Agreement

"Latest Practicable Date"	25 June 2008, 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
"Luchun Xingtai"	Luchun Xingtai Mining Co. Ltd.* (綠春鑫泰礦業有限公司)(formerly known as "個舊市川田礦產有限責任公司"), a Sino-foreign equity joint venture company established in the PRC
"Maturity Date"	on the date falling 5 years after the date of issue of the Convertible Note
"Mine"	a mine known as Damajianshan mine*（綠春鑫泰礦業有限公司大馬尖山銅礦）, having an estimated total land area of approximately 3.6656 square kilometres, as more particularly identified by the location coordinates as set out in the Mining Licence
"Mining Licence"	the mining licence dated 10 September 2007 obtained by Luchun Xingtai in relation to the Mine
"Ninth Vendor" or "Best Captain"	Best Captain International Limited, a company incorporated in the BVI with limited liability, which is wholly owned by an Independent Third Party. The principal business activity of the Ninth Vendor is investment holding
"Note Certificate(s)"	the certificate(s) to be issued in respect of the Convertible Notes
"Noteholder(s)"	the holder(s) of the Convertible Note
"Parklane International Holdings Limited"	Parklane International Holdings Limited, a limited liability company incorporated in the BVI, which is wholly-owned by Mr Leung Chi Yan, being the vendor of the assets acquired by the Company as disclosed in the Circular
"Parklane Limousine"	Parklane Limousine Service Limited, a company incorporated in Hong Kong and beneficially wholly-owned by the Group

"Pledge"	the pledge of the exploitation rights in relation to the Mine, the Mining Licence and assets, things and rights created by two pledge agreements dated 14 December 2007 and 19 December 2007 respectively among Kunming Branch of Shanghai Pudong Development Bank and Luchun Xingtai
"PRC"	the People's Republic of China
"Proposed Share Issue"	the proposed issue of not more than 300,000,000 new Shares (representing approximately 33.91% of all the issued Shares and 25.32% of the enlarged share capital of the Company as at the Latest Practicable Date), by way of private placement of new Shares which are proposed to be listed on the Stock Exchange. Details of the Proposed Share Issue are set out on page 30 to page 33 of this circular
"Purchaser"	Golden Genie Limited, a company incorporated in the BVI and a wholly-owned subsidiary of the Company
"RMB"	Renminbi yuan, the lawful currency of the PRC
"S&P Agreement"	the sales and purchase agreement dated 30 January 2008 entered into between the Company, the Purchaser and the Vendors
"Second Vendor" or "Sheer Distinction"	Sheer Distinction Investments Limited, a company incorporated in the BVI with limited liability, which is wholly owned by an Independent Third Party. The principal business activity of the Second Vendor is investment holding
"Seventh Vendor" or "Prideful Future"	Prideful Future Investments Limited, a company incorporated in the BVI with limited liability and wholly owned by an Independent Third Party. The principal business activity of the Seventh Vendor is investment holding
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"SGM"	a special general meeting of the Company for the Shareholders to consider and, if thought fit, approve (i) the S&P Agreement and the Supplemental Deed and the transactions contemplated thereunder; (ii) the allotment and issue of the Consideration Shares; (iii) the allotment and issue of Convertible Notes; (iv) the proposed increase in authorised share capital and (v) the grant of the Specific Mandate under the Proposed Share Issue, or any adjournment thereof (as the case may be)
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Member/Shareholder(s)"	holder(s) of Shares
"Sixth Vendor" or "Villas Green"	Villas Green Investments Limited, a company incorporated in the BVI with limited liability and wholly owned by an Independent Third Party. The principal business activity of the Sixth Vendor is investment holding.
"Specific Mandate"	a specific mandate to be granted by the Shareholders at the SGM to authorise the Board to allot and issue for not more than 300,000,000 new Shares under the Proposed Share Issue
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Deed"	the agreement date 27 June 2008 entered into between the Company, the Purchaser, the Vendors amending mainly the terms of settlement of the Total Consideration
"t"	ton
"Takeovers Code"	the Code on Takeovers and Mergers
"Target Company" or "Smart Year"	Smart Year Investment Limited, a company incorporated in BVI with limited liability, which is owned as to 14.80% by Talent Zone, as to 1.00% by Sheer Distinction, as to 19.00% Shimmer Expert , as to 4.00% by Wander Profits, as to 11.50% by Top Respect, as to 11.50% by Villas Green, as to 20.00% by Prideful Future, as to 9.00% by Gracious Fortune and as to 9.20% Best Capital
"Target Group"	Target Company and its subsidiaries

"Third Vendor" or "Shimmer Expert"	Shimmer Expert Investments Limited, a company incorporated in the BVI with limited liability, which is wholly owned by an Independent Third Party. The principal business activity of the Third Vendor is investment holding
"Total Consideration"	the total consideration for the Acquisition, being HK$650,000,000
"Vendors"	collectively the First Vendor, the Second Vendor, the Third Vendor, the Fourth Vendor, the Fifth Vendor, the Sixth Vendor, the Seventh Vendor, the Eighth Vendor and the Ninth Vendor
"Warranties"	the representation, warranties, undertakings or indemnities made or given by the Vendors to the Purchaser
"Yunnan Maosheng Yuan"	Yunnan Maosheng Yuan Industry And Trade Co., Ltd.*（雲南貿盛緣工貿有限公司）, a company incorporated in the PRC with limited liability
"Yunnan Rui Juyang"	Yunnan Rui Juyang Trading Co., Ltd.*（雲南鋭聚源商貿有限公司）, a company incorporated in the PRC with limited liability and the minority shareholder of Luchun Xingtai
"%"	per cent

The English name/translations of the companies established in the PRC, relevant authorities in the PRC and other Chinese terms used in this circular are only translations of their official Chinese names. In case of inconsistency, the Chinese names prevail.

Translation of RMB into Hong Kong dollars are based on the exchange rates of HK$1.00 to RMB0.90 for information purpose only. Such translations should not be construed as a representation that the relevant amounts have been, could have been, or could be converted at that or any other rate or at all.

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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:
Cheng Yung Pun *(Chairman)*
Chan Kam Kwan, Jason

Independent Non-Executive Directors:
Lau Kwok Kuen, Eddie
Uwe Henke Von Parpart
Wilton Timothy Carr Ingram

Registered Office:
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2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business:
3906, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

30 June 2008

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION
SPECIFIC MANDATE TO ISSUE NEW SHARES
INCREASE IN AUTHORISED SHARE CAPITAL
AND
NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

On 30 January 2008, the Company, the Purchaser and the Vendors entered into the S&P Agreement pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to dispose of the entire issued share capital of the Target Company for the Total Consideration, being HK$650,000,000. The Total Consideration will be satisfied (i) as to HK$140,000,000 in cash; (ii) as to HK$103,500,000 by the issue of the Consideration Shares by the Company at the Issue Price; and (iii) as to HK$406,500,000 by the issue of the convertible notes. Save as the Acquisition, the Company has no previous transactions with the Vendors and their ultimate beneficial owners which would require to be aggregated with the Acquisition pursuant to Rule 14.22 of the Listing Rules.

* *For identification purpose only*

On 27 June 2008, the Board announced that the S&P Agreement was amended by the Supplemental Deed under which the Total Consideration will remain unchanged, but will be satisfied (i) as to HK$119,800,000 in cash; (ii) HK$94,700,000 by the issue of the Consideration Shares by the Company at the Issue Price; and (iii) as to HK$435,500,000 by the issue of the Convertible Notes. Certain conditions precedent have been added and supplemented. The Completion Long Stop Date has been extended from 30 September 2008 to 31 December 2008. It also announced that the Board would like to seek Shareholders' approval in respect of the grant of the Specific Mandate to allot and issue not more than 300,000,000 new Shares under the Proposed Share Issue.

The Target Group is principally engaged in exploitation, processing and sale of copper, lead, zinc, arsenic, silver and other mineral resources. The Target Company legally and beneficially owns 90% equity interest in Luchun Xingtai, which has been granted the exploitation rights relating to a copper mine in Luchun County, Yunnan Province, the PRC.

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. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, neither the Vendors nor any of their associates holds any Share as at the Latest Practicable Date and no Shareholder has a material interest in the Acquisition, and therefore no Shareholder is required to abstain from voting on the resolution to approve the Acquisition at the SGM.

The purpose of this circular is (i) to give Shareholders details of the Acquisition, the proposed increase in authorised share capital of the Company and the Proposed Share Issue and (ii) to give Shareholders a notice of SGM at which resolutions will be proposed to consider and, if thought fit, approve, the S&P Agreement and the Supplemental Deed and the transactions contemplated thereunder, the allotment and issue of the Consideration Shares, the allotment and issue of the Convertible Notes, proposed increase in the authorised share capital and grant of the Specific Mandate under the Proposed Share Issue at the SGM.

THE S&P AGREEMENT AND THE SUPPLEMENTAL DEED

Date and parties

Date: 30 January 2008 (as amended by the Supplemental Deed dated 27 June 2008)

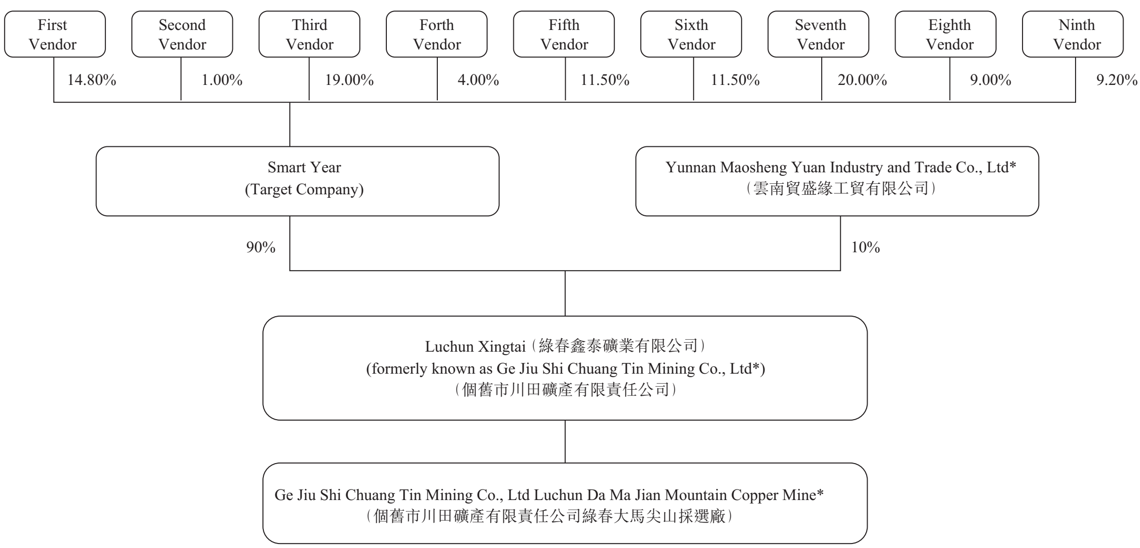
Parties: The Company, the Purchaser (i.e., Golden Genie Limited, a wholly owned subsidiary of the Company) and the Vendors.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendors and their respective ultimate beneficial owners, are third parties independent of and not parties acting in concert with the Company and its connected persons (as defined under the Listing Rules) and, save as being shareholders of the Target Company, the Vendors and their ultimate beneficial owners are independent of each other.

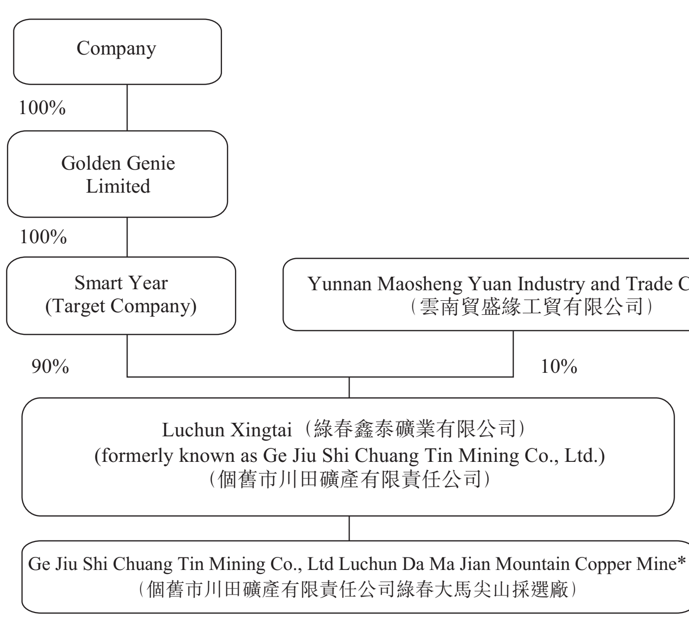
Subject Matter

Upon Completion, the Company will own the entire issued share capital of the Target Company and the net assets and the results of the Target Group will be consolidated in the financial statements of the Group.

Immediately before the Completion, the shareholding structure of the Target Group is set out below:



Upon Completion, the shareholding structure of the Target Group will be as set out below:



Consideration

Pursuant to the S&P Agreement and as amended by the Supplemental Deed, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to dispose of the entire issued share capital of the Target Company at a consideration of HK$650,000,000, which will be satisfied in the following manner:

				Consideration				
Vendor	No. of Target Company's shares	Shareholding	Consideration	Cash	Number of Consideration Shares to be issued	Amount of the Consideration Shares	Number of Conversion Shares to be issued upon conversion of the Convertible Notes in full	Principal amount of the Convertible Notes
		(%)	*(HK$'000)*	*(HK$'000)*		*(HK$'000)*		*(HK$'000)*
First Vendor	1,480	14.80	96,200	60,000	120,666,000	36,200	–	–
Second Vendor	100	1.00	6,500	–	21,668,000	6,500	–	–
Third Vendor	1,900	19.00	123,500	–	86,664,000	26,000	325,000,000	97,500
Fourth Vendor	400	4.00	26,000	–	86,668,000	26,000	–	–
Fifth Vendor	1,150	11.50	74,750	–	–	–	249,168,000	74,750
Sixth Vendor	1,150	11.50	74,750	–	–	–	249,168,000	74,750
Seventh Vendor	2,000	20.00	130,000	–	–	–	433,332,000	130,000
Eighth Vendor	900	9.00	58,500	–	–	–	195,000,000	58,500
Ninth Vendor	920	9.20	59,800	59,800	–	–	–	–
Total:	**10,000**	**100.00**	**650,000**	**119,800**	**315,666,000**	**94,700**	**1,451,668,000**	**435,500**

By two pledge agreements dated 14 December 2007 and 19 December 2007 respectively among Kunming Branch of Shanghai Pudong Development Bank and Luchun Xingtai, Luchun Xingtai had pledged, among other things, the exploitation rights relating to the Mine and the Mining Licence to the bank to secure the repayment obligations of Yunnan Rui Juyang and Yunnan Maosheng Yuan of bank borrowings in the aggregate amount of RMB60,000,000.

Pursuant to the S&P Agreement and as amended by the Supplemental Deed, the Purchaser shall pay the First Vendor the sum of HK$60,000,000 within two months after the passing of the resolution by Shareholders at the SGM approving the S&P Agreement and the Supplemental Deed and the transactions contemplated thereunder (or such other date as the Company, the Purchaser and the Vendors may agree in writing), as part payment of the Total Consideration and deposit.

Provided that in the event that the Deposit is not paid by the Purchaser in accordance with the S&P Agreement and the Supplemental Deed, the S&P Agreement and the Supplemental Deed shall be null and void and of no further effect and no party shall have any further liability to any other parties under or in connection with the S&P Agreement and the Supplemental Deed.

Subject to fulfillment of the conditions precedent set forth in the paragraph headed "Conditions precedent" below and on the Completion Date, the Purchaser shall settle the remaining balance of the Total Consideration by way of delivering to the relevant Vendors (a) a cheque for the remaining cash consideration of HK$59,800,000, (b) the Note Certificates for the Convertible Notes, and (c) the definitive certificates for the Consideration Shares.

On or before payment of the Deposit, the Vendors shall deliver to the Purchaser share charges in the form to the satisfaction of the Purchaser pursuant to which the Vendors shall pledge the entire 100% equity interest in Smart Year and Smart Year shall pledge its 90% equity interest in Luchun Xingtai to the Purchaser as security for the repayment of the Deposit.

In the event the Completion does not take place in accordance with the terms and conditions of the S&P Agreement and the Supplemental Deed:

(a) First Vendor shall forthwith refund the Deposit to the Purchaser or such other person(s) as it may direct in writing without interest; and

(b) against the performance by First Vendor of its obligation to refund the Deposit, the Purchaser shall as soon as reasonably practicable cause the release and discharge of the share charges of the 100% equity interest in Smart Year and the 90% equity interest in Luchun Xingtai.

Basis of consideration

The Total Consideration was determined after arm's length negotiations between the Vendors and the Purchaser after considering a number of factors, including, but not limited to the estimated total resources of contained natural copper, lead, zinc, arsenic, silver and the other mineral resources of the Mine, the prevailing prices of these mineral resources, the financial position of the Target Group, the implied reserve value of comparable international and PRC copper, lead, arsenic producers based on market capitalization and reserve amount, and implied reserve value of comparable acquisitions based on acquisition consideration and the relevant reserve amount. To the best knowledge of the Directors, the recent market price of copper are in the range of RMB62,850 to RMB62,950 per ton, lead are in the range of RMB16,800 to RMB17,000 per ton, zinc are in the range of RMB16,050 to RMB16,150 per ton, arsenic are in the range of RMB10,000 to RMB11,000 per ton, and silver are in the range of RMB3,950 to RMB3,960 per kilogram, depending on factors such as the gradings of the ore concentrates and the demand and supply.

As part of the Company's due diligence review, the Company has appointed an independent valuer (the "Valuer") to opine on the valuation of the Mine. The valuation reflected, among other factors, the remaining life of the Mine, the estimated reserve base and resources of the Mine, the metal concentrate gradings and the mill recovery of the Mine, the daily processing capacity of Luchun Xingtai, the prevailing prices of the mineral resources, the financial position of Luchun Xingtai and the outlook of mining industry in the PRC. The valuation adopted the market approach and has also taken into account the price multiple for comparable international and PRC companies engaged in the mining business. The Company is satisfied with the valuation indicated by the Valuer.

The Company has also engaged BDASIA, a mineral industry consulting firm which has appropriate qualification and relevant experience in the type of exploitation and processing activities proposed to be undertaken by the Company, as the technical adviser to the Company. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, BDASIA and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules). The technical assessment report is set out in the section "Appendix VII – Technical assessment report" of this circular.

Conditions precedent

Completion of the S&P Agreement shall be conditional upon the fulfillment of the following conditions precedent (as amended by the Supplemental Deed):

(a) the Purchaser being satisfied in its absolute discretion with the results of the due diligence review and investigation referred to in the S&P Agreement;

(b) the Purchaser having received from the Vendors a legal opinion issued by a PRC law firm acceptable to the Purchaser covering, inter alia, such matters relating to: (i) the due incorporation, shareholders, loans and liabilities (if any) and scope of business activities of Luchun Xingtai; (ii) the Mining Licence has been duly and validly issued by the proper PRC government authority; and (iii) such other matters as may be required by the Purchaser, in form and substance acceptable to the Purchaser;

(c) the Purchaser having received from the Vendors a legal opinion issued by a law firm in the BVI acceptable by the Purchaser, in form and substance acceptable to the Purchaser;

(d) the Purchaser having received from the Vendors of a report issued from a technical expert acceptable to the Purchaser relating to the state and condition of the Mine covering such matters as may be required by the Purchaser, in form and substance acceptable to the Purchaser;

(e) the passing of the resolution by Shareholders in SGM approving the S&P Agreement and the Supplemental Deed and the transactions contemplated hereunder;

(f) the passing of the resolution by the Shareholders in SGM approving the increase in the authorised share capital of the Company from HK$200,000,000 to HK$400,000,000;

(g) the Company having raised sufficient fund to finance its cash payment obligations under the S&P Agreement and the supplemental Deed;

(h) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the Consideration Shares and the Conversion Shares;

(i) (where required) the Bermuda Monetary Authority granting its permission in respect of the allotment and issue of the Consideration Shares and the Conversion Shares;

(j) the Company and the Purchaser being satisfied that the Enlarged Group shall have sufficient working capital to continue their operation for at least 18 months immediately following the Completion;

(k) the Purchaser having received from the Vendors documentary or other evidence to its reasonable satisfaction that the Pledge has been absolutely discharged and released;

(l) all necessary consents, approval and authorisations having been obtained from all relevant authorities in the PRC and in any other applicable jurisdiction in connection with the transactions contemplated under the S&P Agreement, the implementation of the transactions contemplated hereunder and all other matters incidental hereto; and

(m) there being no event existing or having occurred and no condition being in existence which would constitute a material breach of the Warranties by any of the Vendors.

In the event of any of the above conditions shall not be fulfilled by the Completion Long Stop Date (or such later date as the parties hereto may agree in writing), the S&P Agreement shall be null and void and of no further effect and no party to the S&P Agreement shall have any further liability to any other parties under or in connection with the S&P Agreement without prejudice to the rights of any such parties in respect of any antecedent breaches.

As at the Latest Practicable Date, none of the above conditions precedent has been fulfilled.

Completion

Completion will take place on the day where the conditions of the S&P Agreement (as amended by the Supplemental Deed) as set out in the section headed “Conditions precedent” of this circular have been fulfilled, or such other date as the parties shall agree in writing.

CONSIDERATION SHARES

The Issue Price of the Consideration Shares of HK$0.30 per Consideration Share represents:

(i) a discount of approximately 60% to the closing price of HK$0.75 as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a discount of approximately 45.45% over the closing price of HK$0.55 per Share as quoted on the Stock Exchange on the Last Trading Date;

(iii) a discount of approximately 43.40% to the average closing price of about HK$0.53 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Date;

(iv) a discount of approximately 44.44% to the average closing price of HK$0.54 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Date;

(v) a discount of approximately 51.61% to the average closing price of HK$0.62 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Date ; and

(vi) a premium of approximately 196.44% and 12.99% over the net assets value attributable to equity holders of the Company of approximately HK$0.1012 and HK$0.2655 per Share as at 31 December 2006 and 2007 based on the audited financial statement of the Group for the years ended 31 December 2006 and 2007, respectively.

The Issue Price of the Consideration Shares of HK$0.30 per Consideration Share was determined after arm's length negotiations between the parties with reference to net asset value of the Group. For information purpose, the net asset value attributable to equity holders of the Company per Share as at 31 December 2006 based on the audited financial statement of the Group for the year ended 31 December 2006 was approximately HK$0.1012, while the pro forma net asset value attributable to equity holders of the Company per Share as at 30 June 2007 based on the pro forma financial information as disclosed in the Circular was approximately HK$0.1445 per Share (based on the existing number of Shares in issue). The Directors has also considered the pro forma loss per Share attributable to equity holders of the Company based on the pro forma financial information for the year ended 31 December 2006 as disclosed in the Circular of HK$0.0044 (based on the existing number of Shares in issue) and the fact that the Group recorded losses for the six months ended 30 June 2007. Based on the above, the Directors consider the Issue Price to be fair and reasonable. The Consideration Shares represent approximately 35.68% of the existing share capital of the Company and approximately 26.30% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

There will be no restriction on the subsequent sale of the Consideration Shares.

The Consideration Shares will be allotted and issued under a specific mandate proposed to be granted subject to the approval of the Shareholders at the SGM. An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

CONVERTIBLE NOTE

To satisfy part of the Total Consideration, the Company will issue to the relevant Vendors the Convertible Notes in the aggregate principal amount of HK$435,500,000. The following is a summary of the principal terms of the Convertible Notes:

Maturity	:	The date falling five years after the date of issue of the Convertible Notes.
Redemption	:	The Company shall repay such principal moneys outstanding under the Convertible Notes to the Noteholders on the Maturity Date.
Interest	:	The outstanding principal amount under the Convertible Note will not bear any interest.
Status and Transferability	:	The Convertible Notes may be transferred or assigned in its entirely or in part at any time before the Maturity Date, subject to approval of the Stock Exchange, if required. The Company has undertaken to the Stock Exchange that it will notify the Stock Exchange immediately upon becoming aware of any dealings in the Convertible Notes by connected persons of the Company (as defined in the Listing Rules).
Conversion	:	The Convertible Notes may be converted in amounts of HK$1,000,000 or integral multiples thereof, except that if the outstanding principal amount of the Convertible Note is less than HK$1,000,000, the whole (but not part) of the outstanding principal amount of the Convertible Note must be converted. Upon full conversion of the Convertible Notes at the Initial Conversion Price, an aggregate of 1,451,668,000 Conversion Shares will be issued by the Company (representing approximately 164.08% of the existing issued share capital of the Company, and approximately 54.74% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares, assuming full conversion of the Convertible Notes and the Conversion Shares to be issued at the Initial Conversion Price).

The Conversion Rights shall not be exercised by the Noteholder if, immediately following the conversion:

(i) the Company will be unable to meet the public float requirement under the Listing Rules; or

(ii) the Noteholder together with the parties acting in concert with it will hold or control such amount of the Company's voting power 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).

Initial Conversion Price : HK$0.30 per Share, subject to usual anti-dilution adjustments in certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivatives issues. Each adjustment to the Conversion Price will be certified (at the option of the Company) either by the auditors of the Company for the then time being or by an approved merchant bank.

The Initial Conversion Price of HK$0.30 per Conversion Share represents:

(i) a discount of approximately 60% to the closing price of HK$0.75 as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a discount of approximately 45.45% to the closing price of HK$0.55 per Share as quoted on the Stock Exchange on the Last Trading Date;

(iii) a discount of approximately 43.40% to the average of the closing prices of HK$0.53 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Date;

(iv) a discount of approximately 44.44% to the average of the closing prices of HK$0.54 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including, being the last trading day immediately prior to the entering into of the S&P Agreement;

(v) a discount of approximately 51.61% to the average closing price of HK$0.62 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Date; and

(vi) a premium of approximately 196.44% and 12.99% over the net assets value attributable to equity holders of the Company of approximately HK$0.1012 and HK$0.2655 per Share as at 31 December 2006 and 2007 based on the audited financial statement of the Group for the years ended 31 December 2006 and 2007, respectively.

The Initial Conversion Price was determined after arm's length negotiations between the Company and the Vendors with reference to the Issue Price.

Listing : No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange.

The Conversion Shares to be issued as a result of the exercise of the Conversion Rights will rank pari passu in all respects with all other Shares in issue at the date on which the Conversion Rights are exercised.

There will be no restriction on the subsequent sale of the Conversion Shares.

The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM and will be allotted and issued upon exercise of the Conversion Rights by the Noteholders.

An application will be made by the Company for the listing of and permission to deal in the Conversion Shares to be issued.

EFFECT ON SHAREHOLDING STRUCTURE

The following table summarises the shareholding structure of the Company as at the Latest Practicable Date, and immediately after the issuance of the Consideration Shares, and the conversion of Convertible Notes:

Shareholders	As at the Latest Practicable Date		Immediately after Completion and the allotment and issue of the Consideration Shares		Immediately after the Completion and the allotment and issue of the Consideration Shares and assuming the conversion of Convertible Notes pursuant to the terms of the Convertible Notes *(Note 2 & Note 4)*		FOR ILLUSTRATIVE PURPOSE ONLY Immediately after Completion and the allotment and issue of the Consideration Share and conversion of the Convertible Notes in full *(Note 5)*	
	No. of Shares	*Approximate Percentage*	*No. of Shares*	*Approximate Percentage*	*No. of Shares*	*Approximate Percentage*	*No. of Shares*	*Approximate Percentage*
Cheng Yung Pun *(Note 1)*	445,500,000	50.35%	445,500,000	37.11%	445,500,000	35.25%	445,500,000	16.80%
The First Vendor	—	—	120,666,000	10.05%	120,666,000	9.55%	120,666,000	4.54%
The Second Vendor	—	—	21,668,000	1.81%	21,668,000	1.71%	21,668,000	0.82%
The Third Vendor	—	—	86,664,000	7.22%	100,880,405	7.98%	411,664,000	15.52%
The Fourth Vendor	—	—	86,668,000	7.22%	86,668,000	6.86%	86,668,000	3.27%
The Fifth Vendor	—	—	—	—	10,899,302	0.86%	249,168,000	9.40%
The Sixth Vendor	—	—	—	—	10,899,302	0.86%	249,168,000	9.40%
The Seventh Vendor	—	—	—	—	18,955,148	1.50%	433,332,000	16.34%
The Eighth Vendor	—	—	—	—	8,529,843	0.67%	195,000,000	7.35%
Sub total for The Vendors	—	—	315,666,000	26.30%	379,166,000	29.99%	1,767,334,000	66.64%
Other public Shareholders	379,237,652	42.87%	379,237,652	31.59%	379,237,652	30.01%	379,237,652	14.30%
Juang William *(Note 3)*	60,000,000	6.78%	60,000,000	5.00%	60,000,000	4.75%	60,000,000	2.26%
Sub total for all public Shareholders	439,237,652	49.65%	439,237,652	36.59%	439,237,652	34.76%	439,237,652	16.56%
Total:	**884,737,652**	**100.00%**	**1,200,403,652**	**100.00%**	**1,263,903,652**	**100.00%**	**2,652,071,652**	**100.00%**

Note 1: These Shares are held by Leading Highway Limited, a company incorporated in the BVI with limited liability and the entire issued share capital of which is wholly owned by Mr. Cheng Yung Pun, an executive Director and a controlling shareholder of the Company.

Note 2: Pursuant to the terms of the Convertible Notes, the Conversion Rights shall not be exercised by the Noteholder if, immediately following the conversion: (i) the Company will be unable to meet the public float requirement under the Listing Rules; or (ii) the Noteholder together with the parties acting in concert with it will hold or control such amount of the Company's voting power 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). The Acquisition will not result in a change of control of the Company.

Note 3: *Mr Juang William does not hold any position in the Group. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save as being a shareholder of the Company, (i) Mr. Juang William is independent and not a connected person (as defined under the Listing Rules) of the Company; (ii) Mr. Juang William is not party acting in concert with the existing Shareholders; (iii) Mr. Juang William is not party acting in concert with the Vendors and their ultimate beneficial owners; and (iv) as at the date of the Announcement, Mr. Juang William held 100,000,000 Shares. Subsequent to the date of the Announcement, Mr. Juang William disposed of 40,000,000 Shares and held 60,000,000 Shares as at the Latest Practicable Date.*

Note 4: *Assuming the conversion of Convertible Notes on a pro-rata basis.*

Note 5: *This column is solely for illustrative purpose as the Convertible Notes cannot be fully converted by the Vendors according to the terms of the Convertible Notes (see Note 2 above) under the present shareholding structure.*

The share option scheme (the "Share Option Scheme") of the Company was adopted by the Company pursuant to the written resolution of the sole shareholder passed on 14 August 2002. As at the Latest Practicable Date, there has been no option granted since the adoption of the Share Option Scheme. As at the Latest Practicable Date, there were outstanding convertible securities of the Company, which were convertible into 185,714,285 Shares of the Company subject to adjustment(s).

INFORMATION ON THE GROUP

Golden Genie Limited is an investment holding company incorporated in the BVI with limited liability and a wholly owned subsidiary of the Company. The Group is principally engaged in the provision of limousine and airport shuttle transportation services in Hong Kong and management and operation of toll roads in the PRC. The Company has no present intention to dispose of any of its existing businesses after the Acquisition, subject to any good divesting opportunities in the future which are to the interests of the Company.

INFORMATION ON THE TARGET GROUP

The Target Group is principally engaged in exploitation, processing and sale of copper, lead, zinc, arsenic, silver and other mineral resources.

Smart Year

Smart Year is an investment holding company incorporated in the BVI. Other than its shareholding in Luchun Xingtai, Smart Year has not carried on any business as at the Latest Practicable Date.

Luchun Xingtai

Luchun Xingtai is a Sino-foreign equity joint venture enterprise established in February 2004 in the PRC, which is owned as to 90% by Smart Year and as to 10% by Yunnan Maosheng Yuan. The registered capital of Luchun Xingtai is RMB20,000,000. The Mine is located in Luchun County, Yunnan Province, the PRC. Luchun Xingtai has obtained the relevant exploitation rights license, i.e. the mining permit (採礦許可證5300000720259) dated 10 September 2007, showing that the copper mine has a mining right with 5-year validation period from September 2007 to September 2012. The Mining Licence covers an aggregate mine area of 3.6656 square kilometres. As advised by Guantao Law Firm, the PRC legal advisers appointed by the Company, there should be no material obstacle for Luchun Xingtai to renew the Mining Licence. So far as the Company is aware having made all reasonable enquires, there is no claim in relation to the mining rights made or notified by third parties against Luchun Xingtai or vice versa.

Luchun Xingtai has established a branch, namely Ge Jiu Shi Chuang Tin Mining Co., Ltd. Luchun Da Ma Jian Mountain Copper Mine* (個舊市川田礦產有限責任公司綠春大馬尖山採選廠), an ore processing plant which has daily production capacity of 1,300 tons.

Before the Acquisition, Luchun Xingtai was responsible for the manufacture of the metal concentrates, while Yunnan Rui Juyang and Yunnan Maosheng Yuan were responsible for the sales and distribution function. The copper concentrates produced by Luchun Xingtai were sold to Yunnan Rui Juyang and Yunnan Maosheng Yuan for subsequent sales to external customers.

Since the beginning of January 2008, Luchun Xingtai has ceased to sell any copper concentrates to Yunnan Rui Juyang and Yunnan Maosheng Yuan and Luchun Xingtai's products have been sold directly to external customers. The Directors expect to further develop Luchun Xingtai's sales team and distribution network after the Completion of the Acquisition.

According to technical assessment report issued by BDASIA, an independent technical adviser, which has been commissioned by the Company to review relevant aspects of the Mine as set out in Appendix VII to this circular. The mineral resource estimates are inclusive of mineralisation comprising the ore reserves. The mineral resource estimates under the JORC Code as of 31 December 2007 for the Mine are summarised as below:

JORC Mineral Resource Category	Tonnage (kt)	Grades						Contained Metals					
		Cu %	As %	Pb %	Zn %	Bi %	Ag g/t	Cu kt	As kt	Pb kt	Zn kt	Bi kt	Ag t
Measured	4,652	1.79	6.83	1.54	0.37	0.24	51.1	83.1	318	71.6	17.1	10.9	237
Indicated	3,153	1.70	7.52	1.79	0.52	0.25	57.4	53.5	237	56.4	16.5	8.0	181
Subtotal	**7,805**	**1.75**	**7.11**	**1.64**	**0.43**	**0.24**	**53.6**	**136.5**	**555**	**128.0**	**33.6**	**18.9**	**418**
Inferred	7,678	1.61	6.48	2.18	0.48	0.24	63.1	123.9	498	167.2	36.9	18.3	484
Total	**15,483**	**1.68**	**6.80**	**1.91**	**0.46**	**0.24**	**58.3**	**260.4**	**1,053**	**295.2**	**70.5**	**37.2**	**903**

Cu: Copper
As: Arsenic
Pb: Lead
Zn: Zinc
Bi: Bismuth
Ag: Silver

It is currently expected that for the first year following the date of this circular (assuming that Completion takes place in accordance with the S&P Agreement), the anticipated material capital expenditure required (including mining, ore dressing, tailing dam capital; additive management capital; public, civil and living establishment and maintenance) for the operation of the Mine will be approximately RMB17.0 million (equivalent to approximately HK$18.9 million) and the annual costs on mining rights and exploration fee will be approximately RMB14.0 million (equivalent to approximately HK$15.6 million).

Luchun Xingtai is now under the application process with relevant government authorities to further increase the annual production scale stipulated in the Mining Licence (the "Application"), in order to better utilize the processing capacity of Luchun Xingtai. As advised by Guantao Law Firm, there should be no material obstacle for Luchun Xingtai to increase the production scale. According to relevant PRC laws and regulations, Luchun Xingtai will be obliged to pay certain mining resources usage fees upon completion of the Application. The directors of Luchun Xingtai believed that the amount of mining resources usage fees to be paid will be approximately RMB70 million, subject to the finalisation and approval of relevant government authorities.

FINANCIAL INFORMATION OF THE TARGET GROUP

Immediately before the Acquisition, Smart Year is owned by the Vendors. Upon Completion, the Company will own the entire issued share capital of the Target Company and the net assets and the results of the Target Group will be consolidated in the financial statements of the Group.

The audited consolidated financial information of Smart Year prepared in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants is set out as follows:

	As at 31 December 2007
	RMB'000
Total assets	57,315
Total liabilities	42,359
Total equity	14,956

	Period from 2 April 2007 (date of incorporation) to 31 December 2007
	RMB'000
Turnover	2,621
Net loss before taxation	(3,463)
Net loss after taxation	(3,463)

The audited financial information of Luchun Xingtai prepared in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants is set out as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	6,640	13,368	28,985
Total liabilities	8,723	17,716	24,162
Total equity	(2,083)	(4,348)	4,823

	For the year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Turnover	—	1,962	9,159
Net loss before taxation	(2,583)	(2,266)	(10,329)
Net loss after taxation	(2,583)	(2,266)	(10,329)

As at 31 December 2007, the audited consolidated net assets of the Target Group amounted to approximately RMB15.0 million.

For further details, please refer to the accountants' report on the Target Group which is set out in Appendices II and III to this circular.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors are of the view that the Acquisition would allow the Group to diversify its income and business risks by investing in the mineral resources exploitation and processing. According to National Bureau of Statistics of China, the production volume of refined copper in the PRC in 2007 increased by 17.8% from 2006, attaining 3,440,000 tonnes, while apparent consumption of refined copper in the PRC increased by 36.3% to 4,770,000 tonnes from 2006, leading to the excess of demand over the supply of refined copper in the PRC market. Therefore, the Directors believed that China's copper market will still call for higher production volume to meet the excess of demand over supply.

The Directors are optimistic about the future prospects and demand for natural resources exploitation business in the PRC. Given the strong and sustainable growth momentum of the PRC economy and the continuous development of the cities, infrastructure and real estate sectors, demand for mineral resources and their related products will continue to grow robustly. The Directors therefore believe that the Acquisition provides an opportunity for the Group to enhance its investment returns. The Directors consider that the terms of the Acquisition are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors notice that the reporting accountants of Luchun Xingtai have expressed a qualified opinion on the financial statements of Luchun Xingtai for the three years ended 31 December 2007 arising from the limitation of audit scope that Luchun Xingtai did not carry out physical counts of its inventories amounting to RMB2,154,969 and RMB6,559,610 as at 31 December 2005 and 2006 respectively.

In the circumstances, the reporting accountants have not been able to satisfy as to the existence of inventories held by Luchun Xingtai at 31 December 2005 and 2006. Any adjustments found to be necessary may have an effect on the net liabilities of Luchun Xingtai as at 31 December 2005 and 2006 and on its result and cash flows for each of the three years ended 31 December 2007. Details of which please refer to the accountants' report of Luchun Xingtai in Appendix III to this circular.

The reporting accountants of Smart Year have expressed a qualified opinion on the financial statements of the Target Group for the period from 2 April 2007 (the date of incorporation of Smart Year) to 31 December 2007 (the "Relevant Period") arising from the limitation of audit scope that Luchun Xingtai did not carry out physical counts of its inventories amounting to RMB3,121,512 as at 6 December 2007 (the date of acquisition of 90% interests in Luchun Xingtai by Smart Year).

In the circumstances, the reporting accountants have not been able to satisfy as to the existence of inventories held by Luchun Xingtai at 6 December 2007 (the date of acquisition of 90% interests in Luchun Xingtai by Smart Year). Any adjustments found to be necessary may have an effect on the carrying amounts of the mining rights of the Target Group as at 6 December 2007 and 31 December 2007 and on its result and cash flows for the Relevant Period. Details of which please refer to the accountants' report of Smart Year in Appendix II to this circular.

Having considered the abovementioned qualified opinion of the reporting accountants, the Directors still consider that the Acquisition to be fair and reasonable so far as the Shareholders are concerned due to the following reasons:

(i) Luchun Xingtai has performed stocktaking for its inventories as at 31 December 2007. The reporting accountants were satisfied with the existence of inventories held by Luchun Xingtai at 31 December 2007 and the financial statements of Luchun Xingtai reflect the true and fair view of its financial position as at 31 December 2007; and

(ii) the financial position of the Target Group is only one of the number of factors when determining the Total Consideration. The Company has also considered, among others, the valuation and estimated reserve base and resources of the Mine, which are supported by the valuation and technical assessment reports by Independent Third Parties.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Upon Completion, the Company will own the entire issued share capital of the Target Company and the net assets and the results of the Target Group will be consolidated in the financial statements of the Group.

Assets, liabilities and net assets

The Group had audited consolidated total assets as at 31 December 2007 of approximately HK$442.4 million. As shown in the section headed "Unaudited pro forma financial information on the Enlarged Group" in Appendix IV to this circular, had completion of the Acquisition been taken place on 31 December 2007, the pro forma total assets of the Enlarged Group would have been approximately HK$1,463.3 million, representing increase of approximately 230.8%.

The Group had audited consolidated total liabilities as at 31 December 2007 of approximately HK$156.2 million. As shown in the section headed "Unaudited pro forma financial information on the Enlarged Group" in Appendix IV to this circular, had completion of the Acquisition been taken place on 31 December 2007, the pro forma total liabilities of the Enlarged Group would have been approximately HK$505.8 million.

The Group had audited consolidated net assets attributable to equity holders of the Company as at 31 December 2007 of approximately HK$208.3 million or approximately HK$0.27 on a per Share basis (based on the number of Shares in issue as at 31 December 2007). Had completion of the Acquisition been taken place on 31 December 2007, the pro forma net assets of the Enlarged Group attributable to equity holders of the Company would have been approximately HK$879.0 million, representing increase of approximately 322.1%.

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

Earnings

The Group recorded an audited consolidated loss attributable to equity holders of the Company of approximately HK$5.2 million for the year ended 31 December 2007. Had completion of the Acquisition been taken place on 1 January 2007, the pro forma net loss of the Enlarged Group attributable to equity holders of the Company would have been approximately HK$42.1 million.

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

Gearing position

The total liabilities of the Enlarged Group would be approximately HK$505.8 million had the Acquisition been completed on 31 December 2007, whilst the total assets of the Enlarged Group as of the same date would be approximately HK$1,463.3 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 34.6%.

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

INFORMATION ON THE VENDORS

The Vendors and their ultimate beneficial owners are parties acting in concert among themselves. To the best of the Director's knowledge, information and belief, having made all reasonable enquiries, (i) the Vendors and their ultimate beneficial owners are not parties acting in concert with the existing Shareholders; and (ii) the Vendors and their ultimate beneficial owners are not parties acting in concert with Parklane International Holdings Limited and its ultimate beneficial owner.

Save as the Acquisition, the Company has no previous transactions with the Vendors and their ultimate beneficial owners which would require to be aggregated with the Acquisition pursuant to Rule 14.22 of the Listing Rules.

INFORMATION ABOUT THE MANAGEMENT OF THE COMPANY AND THE ENLARGED GROUP

As at the Latest Practicable Date, the Board comprises Mr. Cheng Yung Pun and Mr. Chan Kam Kwan, Jason as executive Directors and Mr. Lau Kwok Kuen, Eddie, Mr. Uwe Henke Von Parpart and Mr. Wilton Timothy Carr Ingram as independent non-executive Directors.

No Director has stated his intention to resign as a result of the Acquisition. There is no provision under the S&P Agreement and there is no intention of any of the Vendors to nominate any person(s) to be Director(s).

To strengthen the expertise of the Group's management in the mining business, the Company currently intends to retain some of the key senior management of the Target Group and to build up a professional management and technical team with expertise in the mining area as soon as possible after the Completion to further its development and expansion in the mining industry. The Company may seek for a person or persons who has or have mining and/or natural resources related experience to be a Director or Directors.

RISKS RELATING TO THE MINING INDUSTRY

Risks relating to the industry are set out below:

1. The estimated geological resources of mineral resources may differ from the actual mine resources in tonnage and quality. Any material discrepancies may adversely affect the profitability of the Group's mining operations.

2. The profitability of the Group's mining operations may be affected by fluctuations in the market price of mineral resources. As the future revenue from these operations will come from the sale of copper, lead, zinc, arsenic, silver and other mineral resources, the earnings from these operations will be closely related to such prices which may be influenced by numerous factors beyond the control of the Group, including the PRC and the worldwide demand, forward selling activities and general economic conditions in the PRC and elsewhere in the world.

3. The mineral resources industry in the PRC is subject to extensive regulation by the PRC government. The operations under the Mine may be materially and adversely affected by any future changes in the government regulations and policies.

4. Mining operations are subject to environmental protection laws and regulations in the PRC. The expenditure for environmental regulatory compliance will increase if the environment protection laws become more stringent.

5. The operations of the Mine are carried out in the PRC. Any adverse changes in economic policy and legal development in the PRC will affect the revenue generated.

6. The Group will face many operational risks, which include risk related to the geological structure of the Mine and geological disasters that occur during the mining process; and catastrophic events such as fires, earthquakes, floods or other natural disasters.

7. This is the Group's first venture into the mineral resources mining and production industries which could present management challenges. The Company and its current management have no experience in the mining industry. However, the Company intends to retain some of the key senior management of the Target Group and to build up a professional management and technical team with expertise in the mining area as soon as possible after the Completion to cope with the possible challenges.

BUSINESS PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in the provision of limousine and airport shuttle transportation services in Hong Kong and management and operation of toll roads in the PRC.

Upon Completion, the Enlarged Group will also be engaged in exploitation, processing and sale of copper, lead, zinc, arsenic, silver and other mineral resources. Copper is the world's third largest industrial metal in terms of volume after steel and aluminium. The Directors consider that with the continued increase in the demand in natural resources and continuous growth of demand for refined copper, and as stated in the section headed "Reasons for and benefits of the Acquisition", the Directors therefore believe that, the Acquisition will strengthen the Group's development in the mining business and enhance the overall performance and returns to the Shareholders. The Company will continue to pursue any investment opportunities which can enhance the development and growth of business of the Group.

As set out in the announcement of the Company dated 13 June 2008, the Company agreed to dispose its entire interest in the Cableport Group, which are engaged in the management and operation of toll roads in the PRC. The Directors considered that it represents a good opportunity for the Group to divest its interest in the Cableport Group and receive additional cash for developing other businesses with more growth potential.

The Group will continue its business in provision of limousine and airport shuttle transportation services in Hong Kong. Following the disposal of the Cableport Group, the Group will place more effort in the limousine and airport shuttle transportation business and will further look for new investment opportunities. Looking ahead, the demand of the high-end limousine rental services is increasing in China and the Group is now establishing footsteps in Shenzhen, Guangzhou, Shanghai and Beijing to capture the market shares in these unexplored markets. Leveraging on the expertise and successful experience in Hong Kong, the Directors are very optimistic about the future of the Group's limousine and airport shuttle transportation business. The Directors will from time to time review the strategic direction of the Group and explore options to make further acquisitions or disposal of the Group's businesses for the benefits of the Company and the Shareholders as a whole.

FINANCING OF THE ACQUISITION

The Company is considering different financial proposal, including but not limited to equity financing such as placement of new shares including the Proposed Share Issue, to finance the cash portion of the Total Consideration. No decision has been made and no agreement has been entered into in this regard. The Company will make a further announcement if and when it enters into agreement for the share placement or any other type of equity fund raising exercise. The Company has no intention to undertake any equity fund raising which will lead to a change in control of the Company (for the purposes of the Takeovers Code). The Stock Exchange will revisit the implication of reverse takeover rule if such change in control (as defined under the Listing Rules) occurs as a result of these fund raising activities.

INCREASE IN AUTHORISED SHARE CAPITAL

In facilitating the issue of the Consideration Shares and the Convertible Notes, the Board intends to put forward a proposal to the Shareholders to increase the authorised share capital of the Company from HK$200,000,000, divided into 2,000,000,000 Shares of HK$0.10 each, to HK$400,000,000, divided into 4,000,000,000 Shares of HK$0.10 each, by the addition of HK$200,000,000, divided into 2,000,000,000 new Shares. The new Shares, upon issue, shall rank pari passu in all respects with the existing Shares. As at the Latest Practicable Date, 884,737,652 Shares were in issue. The issue of 315,666,000 Consideration Shares and 1,451,668,000 Conversion Shares which may be issued (at the initial conversion price) on conversion in full of the Convertible Notes exceeds the available unissued and authorised ordinary share capital of the Company.

Accordingly, the above proposal to increase the authorised share capital will be proposed at the SGM. The proposed increase in the authorised share capital of the Company is subject to approval of the Shareholders at the SGM. Under Bermuda law, the Company is required to file a memorandum of increase in the authorised share capital together with a certified resolution in respect thereof with the Bermuda Registrar of Companies within 30 days of the effective date of the increase.

The Acquisition is conditional on the increase in share capital being approved by the Shareholders at the SGM and the increase in authorised share capital is not conditional on the approval or completion of the Acquisition.

SPECIFIC MANDATE TO ISSUE NEW SHARES

(1) Proposed Share Issue

The Board proposed the issue of up to 300,000,000 new Shares (representing approximately not more than 33.91% of the issued Shares as at the Latest Practicable Date) to professional and institutional investors by way of private placement of Shares subject to Shareholders' approval. Such Shares are proposed to be listed on the Stock Exchange and it is expected that they will not be allotted and issued to connected persons (as defined under the Listing Rules) of the Company and the Vendors. The proceeds from the Proposed Share Issue are intended to be used to finance (i) part of the cash portion of the Total Consideration; and (ii) the working capital and capital expenditure of Luchun Xingtai upon the Completion.

If any of such investors is a connected person of the Company, the Company will take steps to comply with the relevant requirements under the Listing Rules.

The Company is on discussions and negotiations with certain securities firm in relation to the placing of Shares under the Proposed Share Issue. However, as at the Latest Practicable Date, no definitive agreement has been entered into with any placing agent or other parties. The Company will make an announcement in compliance with the relevant requirement of the Listing Rules, as and when such placing agreement is entered into by the Company. The Directors intends to obtain Shareholders' approval to grant the Specific Mandate to facilitate the allotment and issue of new Shares under the Proposed Share Issue at the SGM, instead of seeking a separate Shareholders' approval after the entering into of the placing agreement.

The Acquisition and the proposed private placement of Shares are not inter-conditional upon each other.

(2) Structure of the Proposed Share Issue

Type of securities to be issued:	Ordinary Shares
Maximum number of Shares to be issued:	Not more than 300,000,000 new Shares (representing approximately 33.91% of the issued Shares as at the Latest Practicable Date and 25.32% of the issued share capital of the Company as enlarged by the Proposed Share Issue). The final number of Shares to be issued is subject to the adjustments (in case of sub-division or consolidation of Shares) made by the Board as may be authorised by the Shareholders at the SGM

Nominal value:	HK$0.10
Rights attached to Share:	The Shares to be issued under the Proposed Share Issue will rank pari passu with the existing Shares in all respects
Method of issue:	The issue will be conducted by way of private placement
Basis for determining the issue price:	The price shall be determined on arm's length basis, by reference to a number of considerations, including prevailing market conditions, the prevailing market price of the Shares and investor demand for the Shares at the relevant time. In any event, the issue price must not be lower than 80% or more of the higher of: • The closing price of the Shares quoted on the Stock Exchange on the date of the launch of the Proposed Share Issue; or • The average closing price of the Shares quoted on the Stock Exchange in the five trading days immediately prior to the earliest of: — The date of announcement of the launch of the Proposed Share Issue; — The date of the placing agreement involving the Proposed Share Issue; and — The date on which the price is fixed. The issue price for the Proposed Share Issue shall be no less than HK$0.40
Minimum net proceeds to be raised:	The Proposed Share Issue must raise a minimum amount of HK$100,000,000

(3) Conditions to the Proposed Share Issue

Upon the grant of the Specific Mandate, and if the Directors proposed to place new Shares pursuant to the Specific Mandate, the Proposed Share Issue will be conditional upon:

(a) the grant of the Specific Mandate by the Shareholders to the Board having been obtained at the SGM;

(b) the entering into of a placing agreement by, among other parties, the Company and the placing agents (to be appointed prior to the Proposed Share Issue) and the placing agreement not being terminated in accordance with its terms; and

(c) the Listing Committee of the Stock Exchange granting listing of and permission to deal in all of the Shares to be issued and placed pursuant to the Proposed Share Issue.

(4) Purpose of the Proposed Share Issue

The Company is proposing to acquire the entire issued share capital of the Target Company. The Acquisition will constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. The purpose of the Proposed Share Issue is for the raising of finance for part of the cash portion of the Total Consideration and the working capital and capital expenditure of Luchun Xingtai upon the Completion.

(5) Uses of the proceeds from the Proposed Share Issue

Based on the minimum proceeds of HK$100,000,000 to be received by the Company under the Proposed Share Issue, the Company intends to use the proceeds for the following purposes:

(i) as to about HK$59.8 million for part payment of the cash portion of Total Consideration;

(ii) as to about HK$21.0 million for the capital expenditure of the Target Group upon the Completion;

(iii) as to about HK$14.0 million for the payment of the mining resources usage fees of the Mine; and

(iv) as to about HK$5.2 million as general working capital of the Target Group upon the Completion.

In the event that the proceeds from the Proposed Share Issue is more than HK$100,000,000, the Directors intend to apply the amount of additional proceeds to be received by the Company for general working capital of the Target Group.

(6) Fund raising activity of the Company in the 12 months immediately preceding the Latest Practicable Date

Other than the placing of Shares as announced in the Company's announcements dated 16 October 2007, there was no fund raising activity conducted by the Company in the 12 months immediately preceding the Latest Practicable Date. The Company's announcement dated 16 October 2007 was made in respect of the placing of 71,000,000 Shares and the net proceeds raised were approximately HK$37.4 million. The proceeds were used to finance the acquisition of the Perryville Group Limited as announced by the Company on 29 June 2007 and for general working capital.

(7) Validity of the Specific Mandate

The Specific Mandate, if granted, will commence from the date of passing of the relevant resolutions at the SGM and will lapse on the expiration of the three-month period following the date of passing of the relevant resolutions at date of the SGM.

The issue price under the Proposed Share Issue is limited to a discount of not more than 20% to the benchmarked price set out in Rule 13.36(5). Also, the Proposed Share Issue provides the Company with a way to finance the Acquisition and the future business development of the Target Group. Therefore, the Directors believe that the transactions contemplated under the Specific Mandate are fair and reasonable to the Shareholders as a whole.

The following table summarises the shareholding structure of the Company as at the Latest Practicable Date, and immediately after the Proposed Share Issue, the issuance of the Consideration Shares, and the conversion of Convertible Notes:

Shareholders	As at the Latest Practicable Date		Immediately after Completion and the Proposed Share Issue and the allotment and issue of the Consideration Shares		Immediately after the Completion and the Proposed Share Issue and the allotment and issue of the Consideration Shares and assuming the conversion of Convertible Notes pursuant to the terms of the Convertible Notes *(Note 2 & Note 4)*		FOR ILLUSTRATIVE PURPOSE ONLY Immediately after Completion and the Proposed Share Issue and the allotment and issue of the Consideration Share and conversion of the Convertible Notes in full *(Note 5)*	
	No. of Shares	*Approximate Percentage*	*No. of Shares*	*Approximate Percentage*	*No. of Shares*	*Approximate Percentage*	*No. of Shares*	*Approximate Percentage*
Cheng Yung Pun *(Note 1)*	445,500,000	50.35%	445,500,000	29.69%	445,500,000	26.32%	445,500,000	15.09%
The First Vendor	—	—	120,666,000	8.04%	120,666,000	7.13%	120,666,000	4.09%
The Second Vendor	—	—	21,668,000	1.44%	21,668,000	1.28%	21,668,000	0.73%
The Third Vendor	—	—	86,664,000	5.78%	129,649,035	7.66%	411,664,000	13.94%
The Fourth Vendor	—	—	86,668,000	5.78%	86,668,000	5.12%	86,668,000	2.94%
The Fifth Vendor	—	—	—	—	32,955,370	1.95%	249,168,000	8.44%
The Sixth Vendor	—	—	—	—	32,955,370	1.95%	249,168,000	8.44%
The Seventh Vendor	—	—	—	—	57,313,204	3.39%	433,332,000	14.68%
The Eighth Vendor	—	—	—	—	25,791,021	1.51%	195,000,000	6.61%
Sub total for The Vendors	—	—	315,666,000	21.04%	507,666,000	29.99%	1,767,334,000	59.87%
Placees under the Proposed Share Issue	—	—	300,000,000	19.99%	300,000,000	17.73%	300,000,000	10.16%
Other public Shareholders	379,237,652	42.87%	379,237,652	25.28%	379,237,652	22.41%	379,237,652	12.85%
Juang William *(Note 3)*	60,000,000	6.78%	60,000,000	4.00%	60,000,000	3.55%	60,000,000	2.03%
Sub total for all public Shareholders	439,237,652	49.65%	439,237,652	29.28%	439,237,652	25.96%	439,237,652	14.88%
Total:	884,737,652	100.00%	1,500,403,652	100.00%	1,692,403,652	100.00%	2,952,071,652	100.00%

Note 1: These Shares are held by Leading Highway Limited, a company incorporated in the BVI with limited liability and the entire issued share capital of which is wholly owned by Mr. Cheng Yung Pun, an executive Director and a controlling shareholder of the Company.

Note 2: Pursuant to the terms of the Convertible Notes, the Conversion Rights shall not be exercised by the Noteholder if, immediately following the conversion: (i) the Company will be unable to meet the public float requirement under the Listing Rules; or (ii) the Noteholder together with the parties acting in concert with it will hold or control such amount of the Company's voting power 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). The Acquisition will not result in a change of control of the Company.

Note 3: Mr. Juang William does not hold any position in the Group. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save as being a shareholder of the Company, (i) Mr. Juang William is independent and not a connected person (as defined under the Listing Rules) of the Company; (ii) Mr. Juang William is not party acting in concert with the existing Shareholders; (iii) Mr. Juang William is not party acting in concert with the Vendors and their ultimate beneficial owners; and (iv) as at the date of the Announcement, Mr. Juang William held 100,000,000 Shares. Subsequent to the date of the Announcement, Mr. Juang William disposed of 40,000,000 Shares and held 60,000,000 Shares as at the Latest Practicable Date.

Note 4: Assuming the conversion of Convertible Notes on a pro-rata basis.

Note 5: This column is solely for illustrative purpose as the Convertible Notes cannot be fully converted by the Vendors according to the terms of the Convertible Notes (see Note 2 above) under the present shareholding structure.

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. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, neither the Vendors nor any of its associates holds any Share as at the Latest Practicable Date and no Shareholder has a material interest in the Acquisition, and therefore no Shareholder is required to abstain from voting on the resolution to approve the Acquisition at the SGM.

Resolutions will be proposed at the SGM to approve (i) the S&P Agreement and the Supplemental Deed and the transactions contemplated thereunder; (ii) the allotment and issue of Consideration Shares; (iii) the allotment and issue of Convertible Notes; (iv) proposed increase in the authorised share capital; and (v) the Proposed Share Issue, the grant of a Specific Mandate to allot and issue new Shares in connection with the Proposed Share Issue and to authorise the Board to determine and deal with at its discretion and with full authority, matters relating thereto (including but not limited to the specific timing of the issue, final number of new Shares to be issued (not more than 300,000,000 Shares), offering mechanism, pricing mechanism, issue price (not lower than HK$0.40 in any event), target subscribers and the number and proportion of Shares to be issued to each subscriber). It should be noted that the Proposed Share Issue, upon approval by the Shareholders at the SGM, is still subject to the approval of the Stock Exchange as to the listing and dealings in the new Shares on the Stock Exchange at the SGM.

SGM

The SGM will be held at Mont Blanc Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Friday, 18 July 2008, at 10:45 a.m.. A notice convening the SGM is set out on pages N-1 to N-4 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 24 of this circular, the Directors (including the independent non-executive Directors) consider that the terms of S&P Agreement (as amended by the Supplemental Deed) and the Proposed Share Issue are fair and reasonable so far as the Shareholders are concerned and on normal commercial terms and that the Acquisition and the Proposed Share Issue are 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 resolutions to be proposed at the SGM to approve (i) the S&P Agreement and the Supplemental Deed and the transactions contemplated thereunder; (ii) the allotment and issue of Consideration Shares; (iii) the allotment and issue of Convertible Notes; (iv) proposed increase in the authorised share capital; and (v) the Proposed Share Issue and the grant of the Specific Mandate at the SGM.

By order of the Board
Cheng Yung Pun
Chairman

1. SUMMARY OF FINANCIAL INFORMATION ON THE GROUP

Set out below is a summary of the financial results of the Group for the three years ended 31 December 2005, 2006 and 2007. For the year ended 31 December 2005, the auditor of the Company has expressed an unqualified opinion on the consolidated financial statements of the Group. For the years ended 31 December 2006 and 2007, the auditor of the Company has expressed a qualified opinion on the consolidated financial statements of the Group. The details are set out in paragraph 3 of this appendix.

Financial Summary

	For the year ended 31 December		
	2007	**2006**	**2005**
	HK$'000 *(audited)*	*HK$'000* *(audited)*	*HK$'000* *(audited)*
RESULTS			
Revenue	25,380	15,213	29,423
(Loss)/profit before taxation	(5,329)	5,011	14,253
Income tax expense	(700)	(1,142)	(2,379)
(Loss)/profit for the year	(6,029)	3,869	11,874
Attributable to:			
Equity holders of the Company	(5,243)	1,000	5,835
Minority interests	(786)	2,869	6,039
	(6,029)	3,869	11,874
(Loss)/earnings per share			
— Basic (cents)	(0.77)	0.17	1.14
— Diluted (cents)	N/A	N/A	1.02

	As at 31 December		
	2007	**2006**	**2005**
	HK$'000 *(audited)*	*HK$'000* *(audited)*	*HK$'000* *(audited)*
ASSETS AND LIABILITIES			
Total assets	442,375	144,708	156,399
Total liabilities	(156,188)	(3,297)	(13,785)
	286,187	141,411	142,614
Equity attributable to equity holders of the Company	208,309	60,175	53,315
Minority interests	77,878	81,236	89,299
	286,187	141,411	142,614

2. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2007

The following is the audited financial statements of the Group for the year ended 31 December 2007 as extracted from the annual report of the Company for the year ended 31 December 2007.

Consolidated Income Statement
For the year ended 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	8	25,380	15,213
Business tax		(340)	(760)
Direct costs		(22,624)	(7,545)
		2,416	6,908
Other income		719	1,147
Administrative expenses		(6,746)	(2,563)
Finance costs	10	(1,718)	(481)
(Loss) profit before taxation		(5,329)	5,011
Income tax expense	11	(700)	(1,142)
(Loss) profit for the year	12	(6,029)	3,869
Attributable to:			
Equity holders of the Company		(5,243)	1,000
Minority interests		(786)	2,869
		(6,029)	3,869
(Loss) Earnings per share	15		
— Basic *(HK cents)*		(0.77)	0.17
— Diluted		N/A	N/A

Consolidated Balance Sheet
At 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Toll road operation rights	16	82,203	81,414
Property, plant and equipment	17	51,148	459
Goodwill	18	91,872	—
Intangible asset	19	100,977	—
Interests in infrastructure joint ventures	20	—	—
Amounts due from minority shareholders of a subsidiary	22	52,674	48,872
Deferred tax assets	29	5,754	4,048
		384,628	134,793
Current assets			
Trade receivables	21	13,455	—
Other receivables, deposits and prepayments		4,265	237
Bank balances and cash	23	40,027	9,678
		57,747	9,915
Current liabilities			
Trade payables	24	6,159	—
Other payables and accrued charges	24	8,576	1,746
Tax liabilities		74	215
Bank borrowings due within one year	25	26,183	—
Obligations under finance leases	26	1,507	—
		42,499	1,961
Net current assets		15,248	7,954
Total assets less current liabilities		399,876	142,747

	Notes	2007 HK$'000	2006 HK$'000
Capital and reserves			
Share capital	28	78,474	59,484
Reserves		129,835	691
Equity attributable to equity holders of the Company		208,309	60,175
Minority interests		77,878	81,236
Total equity		286,187	141,411
Non-current liabilities			
Bank borrowings due after one year	25	1,647	—
Obligations under finance leases	26	3,719	—
Convertible notes	27	84,058	—
Deferred tax liabilities	29	24,265	—
Amount due to a director	30	—	1,336
		113,689	1,336
		399,876	142,747

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2007

	Attributable to equity holder of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Statutory surplus reserve *HK$'000*	Convertible notes reserve *HK$'000* *(Note 27)*	Share-holders' 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, 2006	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 paid to minority interests	—	—	—	—	—	—	—	—	(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
Exchange differences arising on translation of foreign operation recognised directly in equity	—	—	—	—	—	10,454	—	10,454	—	10,454
Loss for the year	—	—	—	—	—	—	(5,243)	(5,243)	(786)	(6,029)
Total recognised income (loss) for the year	—	—	—	—	—	10,454	(5,243)	5,211	(786)	4,425
Issue of shares	18,990	60,965	—	—	—	—	—	79,955	—	79,955
Cost of issuance of shares	—	(2,199)	—	—	—	—	—	(2,199)	—	(2,199)
Issue of convertible notes	—	—	—	65,167	—	—	—	65,167	—	65,167
Dividend paid to minority interests	—	—	—	—	—	—	—	—	(2,572)	(2,572)
Deemed contribution from (distribution to) shareholders	—	—	—	—	(163)	—	163	—	—	—
At 31st December, 2007	**78,474**	**58,766**	**2,450**	**65,167**	**—**	**19,123**	**(15,671)**	**208,309**	**77,878**	**286,187**

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, 2007

	Note	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before taxation		(5,329)	5,011
Adjustments for:			
Amortisation of toll road operation rights		5,057	4,603
Amortisation of intangible asset		1,975	—
Depreciation of property, plant and equipment		1,949	161
Interest expense		1,718	481
Interest income		(620)	(1,121)
Gain on disposal of property, plant and equipment		(36)	—
Allowance for doubtful debts		104	—
Operating cash flows before movements in working capital		4,818	9,135
Increase in trade receivables		(3,220)	—
(Increase) decrease in other receivables, deposits and prepayments		(635)	1,754
Increase in trade payables		1,941	—
Increase in other payables and accrued charges		2,880	38
Cash generated from operating activities		5,784	10,927
Income tax paid		(215)	(1,866)
NET CASH GENERATED FROM OPERATING ACTIVITIES		5,569	9,061
INVESTING ACTIVITIES			
Interest received		327	214
Purchase of property, plant and equipment		(346)	(2)
Proceeds from disposal of property, plant and equipment		36	—
Acquisition of subsidiaries	*31*	(49,808)	—

	Note	2007 HK$'000	2006 HK$'000
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		(49,791)	212
FINANCING ACTIVITIES			
Repayment to a director		(1,443)	(3,093)
Dividend paid to minority interests		(2,572)	(7,804)
Proceeds from issuance of ordinary shares		79,955	—
Expenses on issuance of ordinary shares		(2,199)	—
Repayment of borrowings		(1,895)	—
Borrowings raised		3,152	—
Interest paid		(363)	—
Finance lease charges		(78)	—
Repayment of obligations under finance leases		(655)	—
Decrease in amount due to ultimate holding company		—	(7,080)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES		73,902	(17,977)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		29,680	(8,704)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		9,678	17,865
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		669	517
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY			
Bank balances and cash		40,027	9,678

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

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 38 and 20 respectively.

The consolidated financial statements are presented in Hong Kong dollars. In October 2007, The Company acquired the entire interest of Perryville Group Limited and its subsidiaries ("Perryville Group") in which its main operation is located in Hong Kong. The acquisition constitutes a very substantial acquisition for the Company. In the opinion of the Directors, the functional currency of the Company changed from Renminbi ("RMB") to Hong Kong dollars ("HK$").

2. BASIS OF VALUATION OF TOLL ROAD OPERATION RIGHTS

As at 31st December, 2007, the toll road operation rights are stated at an aggregate carrying value of $82,203,000. The directors determined the recoverable amount of the toll road operation rights, based on a value in use calculation as at 31st December, 2007. That calculation used cashflow projection. As the estimated recoverable amount exceeds the carrying value, the directors consider that no impairment loss was required. The major assumption made by the directors is that the government compensation would remain at RMB50,000 per day (approximately RMB18.25 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 the years 2004 to 2007;
- 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 31st December, 2007;
- previous legal documents from the Hangzhou City government on the approval of the toll road operation and toll rates being charged; and
- the estimated compensation amount will be recovered from the Hangzhou City government.

As stated in note 22, at the discretion of the directors of Hangzhou Huanan Engineering Development Co., Ltd. ("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 to assess the recoverability of the amount. Based on the assumption as mentioned above, HHED will remain profitable and hence, no recoverability problem on the amounts due from minority shareholders or reversal of the deferred tax assets in respect of the repairs and renovation costs and impairment loss on toll road operation rights were expected.

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 the lawyer in the People's Republic of China (excluding Hong Kong and defined as "PRC"). As advised by the PRC 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, but the court decision is pending. The Hangzhou City government agrees the payment of government compensation of which the amount is under negotiation.

In light of the above information provided by the management, and the action 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 are fairly stated as at 31st December, 2007.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

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 applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for accounting periods beginning on or after 1st January, 2009
[2] Effective for accounting periods beginning on or after 1st July, 2009
[3] Effective for accounting periods beginning on or after 1st March, 2007
[4] Effective for accounting periods beginning on or after 1st January, 2008
[5] Effective for accounting periods beginning on or after 1st July, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transaction.

HK(IFRIC) – Int 12 sets out general principles on recognising and measuring the obligations and related rights under service concession arrangements. The Group will apply this interpretation from 1st January, 2008. The directors of the Company has commenced considering the potential impact of this new interpretation but is still not yet in the position to reasonably estimate the impact that may arise on the Group's results and financial position. The directors of the Company anticipate that the application of the remaining new or revised standards or interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards 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.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

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.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

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 an infrastructure joint venture 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 venture.

Where a group entity transacts with a infrastructure joint venture of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the infrastructure joint venture, 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 receivable for services provided in the normal course of business, net of discounts.

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

Revenue from the toll road operations is recognised on a receipt 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. 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, such 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.

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 (i.e, the currency of the primary economic environment in which the entity operates) 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 entities 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 goodwill or 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and in a jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

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, amounts due from minority shareholders of a subsidiary and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. The accounting policy on impairment loss of financial assets are set out below.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, 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.

The carrying amount is reduced by the impairment loss directly for all loans and receivables with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade payables, other payables and accrued charges, and secured bank borrowings, are subsequently measured at amortised cost, using the effective interest rate method.

Convertible notes

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible notes reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes reserve until the embedded option is exercised, in which case the balance stated in convertible notes reserve will be transferred to share premium. Where the option remains unexercised at the expiry date, the balance stated in convertible notes reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest 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.

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 Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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 and the Mandatory Provident Fund Scheme are charged as expenses as when employees have rendered service entitling them to the contributions.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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 to assess the recoverable amount of the toll road operation rights. The assumptions that the Group considered important in the preparation of the discounted cash low 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 right's 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 22 and 38(a), 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 depend on the amount of government compensation to be received in the future years. The details of the government compensation are set out in notes 8 and 16.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2007, the carrying amount of goodwill is HK$91,872,000 (2006: nil). Details of the recoverable amount calculation are disclosed in note 18.

Expected life of the intangible asset

The Group amortises its intangible asset on a straight line basis over its estimated useful life of 10 years commencing from the date of acquisition of subsidiaries. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the intangible asset. The Group re-assesses the useful life of the intangible asset on a regular basis and if the expectation differs from the original estimate, such difference will impact the amortisation in the year in which such estimate has been changed. During the year ended 31st December, 2007, the Group recognised amortisation of intangible asset amounting to approximately HK$1,975,000 (2006: nil). Details of the Group's intangible asset are set out in note 19 to the consolidated financial statements.

Allowance for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectability analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each client. If the financial conditions of client of the Group and their ability to make payments improved, reversal of allowance may be required. During the year ended 31st December, 2007, the Group recognised allowance for bad and doubtful debts amounting to approximately HK$104,000 (2006: nil).

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debts and equity balances. The directors of the Company consider that the capital structure of the Group consists of net debts, which includes the borrowings net of cash and cash equivalents, and equity attributable to equity holders of the Company comprising issued capital and reserves.

The directors of the Company review the capital structure by considering the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payment of dividends, new share issues and share buy backs as well as the issue of the new debt or the repayment of existing debts.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2007	**2006**
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables including cash and cash equivalents	106,179	58,787
Financial liabilities		
Amortised cost	121,850	2,104
Obligations under finance leases	5,226	—
	127,076	2,104

(b) Financial risk and management objectives and policies

The Group's major financial instruments include amounts due from minority shareholders of a subsidiary, trade receivables, other receivables, bank balances, trade payables, other payables, bank borrowings and obligations under finance leases. 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's revenue from as well as assets and liabilities of the toll road operation were denominated in RMB, the functional currency of HHED, while substantial portion of the revenue from as well as assets and liabilities of limousine and shuttle bus rental services were denominated in HK$, the functional currency of the group entities that operating the limousine and shuttle bus rental services. During the year ended 31st December, 2006, the Group's revenue, assets and liabilities were denominated in RMB, the functional currency of HHED and the Company. Accordingly, the Company's directors considered that the Group had minimal exposure to currency risk during the year ended 31st December, 2007 and 2006.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate convertible notes and fixed rate obligation under finance leases and amounts due from minority shareholders of a subsidiary.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. The Group's interest rate risk on bank balances is insignificant. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group does not have interest rate hedging policy. However, the management monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

The Group's exposures to interest rate risk on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rate arising from the Group's variable rate bank balances and variable rate bank borrowings.

(iii) Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31st December, 2007 would increase/decrease by HK$139,000 (2006: nil). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

Credit risk

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 recognized financial assets as stated in the consolidated balance sheet. Moreover, for the amounts due from minority shareholders of a subsidiary, at the discretion of the directors of HHED, it will be set off against future dividends to be declared by HHED. The details are set out in notes 2, 22 and 38(a).

As at 31st December, 2007, the credit risk on the Group's toll roll operation is minimal as all of the customers paid by cash. In respect of the credit risk of the Group's limousine and shuttle bus services, the management of the Group has delegated a team to compile the credit and risk management policies, to approve the credit limit and to determine any debt recovery action on those delinquent receivables. In addition, the management reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk of the Group's limousine and shuttle bus services is significantly reduced.

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

Apart from the amounts due from minority shareholders of a subsidiary of which the management of credit risk is described in note 2, the Group has no concentration of credit risk, with exposure spread over a number of counterparties.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings from bank and other financial institutions as a significant source of liquidity. As at 31st December, 2007, the Group has available unutilised bank loan facilities of approximately HK$10,420,000 (2006: nil).

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 3 months	3-6 months	6-12 months	1-2 years	2+ years	Total undiscounted cash flows	Carrying amount at 31/12/2007
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007								
Non-derivative financial liabilities								
Trade payables	—	6,156	3	—	—	—	6,159	6,159
Other payables		3,803	—	—	—	—	3,803	3,803
Bank borrowings — variable rate	5.43	26,493	722	1,444	1,684	—	30,343	27,830
Obligations under finance leases	2.375	445	446	891	1,782	2,197	5,761	5,226
Convertible notes	10.20	595	595	1,210	4,800	124,352	131,552	84,058
		37,492	1,766	3,545	8,266	126,549	177,618	127,076

The cash flow of variable interest rate instruments is based on the rate outstanding at the balance sheet date.

	Weighted average effective interest rate	Less than 3 months	3-6 months	6-12 months	1-2 years	2+ years	Total undiscounted cash flows	Carrying amount at 31/12/2006
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006								
Non-derivative financial liabilities								
Other payables		768	—	—	—	—	768	768
Amount due to a director	8	1,443	—	—	—	—	1,443	1,336
		2,211	—	—	—	—	2,211	2,104

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follow:

- the fair value of financial assets with standard terms and conditions and trade on active liquid markets are determined with reference to quoted market bid prices, and
- the fair value of other financial assets and other financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as inputs.

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

8. REVENUE

Revenue represents the amounts of toll receipts generated from the toll road, compensation received from Hangzhou City government for the loss of toll receipts from automobiles registered in Hangzhou City and amounts received and receivable for providing limousine and airport shuttle rental services.

	2007	**2006**
	HK$'000	*HK$'000*
Gross toll receipts	6,432	7,409
Hangzhou City government compensation (note)	—	7,804
Income from limousine rental services	14,941	—
Income from airport shuttle rental services	4,007	—
	25,380	15,213

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, 2007 was nil (2006: HK$7,804,000). Up to the approval date of these financial statements, the amount of remaining compensation for the year ended 31st December, 2006 and the amount of compensation for the year ended 31st December, 2007 were under negotiation and there was no agreement has been reached by HHED and the Hangzhou City government on the daily compensation for the year ended 31st December, 2007. A civil petition has been submitted to the PRC court for the judgement on the government compensation.

On 20th February, 2008, the court has raised the 1st court hearing in relation to the government compensation as mentioned in note 2 and above. As advised by the PRC lawyer, The Hangzhou City government has agreed that compensation will be paid to the Group once the amount thereof is finalised.

9. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions, namely, toll road operation, limousine rental services and airport shuttle rental services. The limousine and airport shuttle rental services divisions arose from acquisition of limousine hiring business on 22nd October, 2007 as mentioned in note 31. These divisions are the basis on which the Group reports its primary segment information.

Business segments

Segment information about these businesses is presented below.

Principal activities are as follows:

Toll road operation — management and operation of a toll road in the PRC

Limousine rental services — provision of limousine rental services in Hong Kong

Airport shuttle rental services — provision of airport shuttle rental services in Hong Kong

(1) ***Consolidated income statement***
For the year ended 31st December, 2007

	2007				2006	
	Toll road operation	Limousine rental services	Airport shuttle rental services	Consolidated	Toll road operation	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue						
Segment revenue	6,432	14,941	4,007	25,380	15,213	15,213
Result						
Segment results	(2,785)	119	524	(2,142)	6,908	6,908
Unallocated revenue				719		1,147
Unallocated expenses				(2,188)		(2,563)
Finance costs				(1,718)		(481)
(Loss) profit before taxation				(5,329)		5,011
Income tax expense				(700)		(1,142)
(Loss) profit for the year				(6,029)		3,869

(2) ***Consolidated balance sheet***
As at 31st December, 2007

	2007				2006	
	Toll road operation	Limousine rental services	Airport shuttle rental services	Consolidated	Toll road operation	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	83,067	233,067	27,476	343,610	82,110	82,110
Amounts due from minority shareholders of a subsidiary				52,674		48,872
Other unallocated assets				46,091		13,726
Consolidated total assets				442,375		144,708
Segment liabilities	1,526	6,816	5,393	13,735	1,746	1,746
Unallocated liabilities				142,453		1,551
Consolidated total liabilities				156,188		3,297

(3) ***Other information:***

	Year ended 31st December, 2007				Year ended 31st December, 2006
	Toll road operation	Limousine rental services	Airport shuttle rental services	Consolidated	Toll road operation
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Additions of property, plant and equipment	245	500	—	745	2
Additions of property, plant and equipment through acquisition of subsidiaries	—	51,727	23	51,750	—
Additions of goodwill and intangible asset	—	181,833	12,991	194,824	—
Depreciation of property, plant and equipment	129	1,820	—	1,949	161
Amortisation of toll road operation rights	5,057	—	—	5,057	4,603
Amortisation of intangible asset	—	1,726	249	1,975	—
Gain on disposal of property, plant and equipment	—	36	—	36	—
Allowance for doubtful debts	—	104	—	104	—

Geographical segments

The Group's toll road operation is located in the PRC and the limousine and airport shuttle rental services are mainly located in Hong Kong.

The following table provides an analysis of the Group's revenue by geographical market, based on location of customers, irrespective of the origin of the services:

	2007			2006
	The PRC	**Hong Kong**	**Consolidated**	**The PRC**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
Segment revenue	6,947	18,433	25,380	15,213

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by geographical area in which the assets are located:

	2007			2006
	The PRC	**Hong Kong**	**Consolidated**	**The PRC**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	158,233	185,377	343,610	82,110
Additions of property, plant and equipment	245	500	745	2
Additions of property, plant and equipment through acquisition of subsidiaries	—	51,750	51,750	—
Additions of goodwill and intangible asset	75,166	119,658	194,824	—

10. FINANCE COSTS

Finance costs represent:

	2007	**2006**
	HK$'000	*HK$'000*
Effective interest expense on convertible notes *(note 27)*	1,170	—
Imputed interest on amount due to ultimate holding company	—	259
Imputed interest on amount due to a director	107	222
Interest on bank borrowings wholly repayable within five years	363	—
Finance leases	78	—
	1,718	481

11. INCOME TAX EXPENSE

	2007	2006
	HK$'000	*HK$'000*
PRC Enterprise Income Tax:		
Current year	74	872
Underprovision in prior years	—	51
	74	923
Deferred tax:		
Current year *(note 29)*	626	219
	700	1,142

PRC Enterprise income tax 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. On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 18% to 25% progressively in next few years.

For the year ended 31st December 2007, no tax is payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward. During the year ended 31st December, 2006, 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 (loss) profit per the consolidated income statement as follows:

	2007	2006
	HK$'000	*HK$'000*
(Loss) profit before taxation	(5,329)	5,011
Tax at the domestic income tax rate of 17.5% (2006:18%) *(Note)*	(933)	902
Tax effect of expenses not deductible for tax purposes	1,027	357
Tax effect of income not taxable for tax purposes	(115)	(168)
Underprovision in respect of prior years	—	51
Tax effect of tax loss not recognised	683	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	38	—
Tax charge for the year	700	1,142

Note: The domestic income tax rate represents the statutory tax rate of the major group companies.

12. (LOSS) PROFIT FOR THE YEAR

	2007	2006
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging:		
Amortisation of toll road operation rights (included in direct costs)	5,057	4,603
Amortisation of intangible asset (included in direct costs)	1,975	—
Depreciation	1,949	161
Total amortisation and depreciation	8,981	4,764
Auditor's remuneration	1,000	420
Allowance for doubtful debts	104	—
Repairs and renovation costs	226	226
Exchange loss	213	—
Staff costs:		
Directors' emoluments *(note 13)*	376	310
Retirement benefit scheme contributions	705	561
Other staff costs	6,532	1,951
Total staff costs	7,613	2,822
Operating lease rentals in respect of office premises	733	34
After crediting:		
Interest income	327	214
Imputed interest income on amounts due from minority shareholders of a subsidiary	293	907
Total interest income	620	1,121
Gain on disposal of property, plant and equipment	36	—

13. DIRECTORS AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

The emoluments paid or payable to each of the eight (2006: seven) directors were as follows:

	Cheng Yung Pun	Yu Sui Chuen	Cheng Wing See, Nathalie	Luo ZhiJian	Au-Yeung Tsan Pong, Davie	Fung Ka Choi	Wong Chu Fung	Lau Kwok Kuen, Eddie	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007									
Fees	55	55	52	52	55	55	52	—	376
2006									
Fees	50	50	50	10	50	50	50	N/A	310

No director waived any emoluments during the two years ended 31st December, 2007.

(ii) Five highest paid individuals

During the year, the five highest paid individuals did not include any director of the Company (2006: included one director whose emolument are set out above). The emoluments for the five (2006: four) highest paid individuals of the Group were as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Salaries and other benefits	767	431
Contribution to retirement benefit scheme	2	—
Performance related incentive payments	295	8
	1,064	439

14. DIVIDEND

No dividend was paid or proposed during 2007, nor has any dividend been proposed since the balance sheet date (2006: nil).

15. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the (loss) earnings for the year attributable to equity holders of the Company of HK$5,243,000 (2006: earnings of HK$1,000,000) and on 679,478,000 (2006: 594,838,000) shares in issue.

The computation of diluted loss per share for the year ended 31st December, 2007 does not assume the conversion of the Company's outstanding convertible notes since their exercise would result in a decrease in loss per share for the year ended 31st December, 2007.

No diluted earnings per share was presented for the year ended 31st December, 2006 as the Company had no dilutive potential ordinary shares.

16. TOLL ROAD OPERATION RIGHTS

	HK$'000
COST	
At 1st January, 2006	118,630
Exchange adjustment	4,745
At 31st December, 2006	123,375
Exchange adjustment	8,859
At 31st December, 2007	132,234
AMORTISATION AND IMPAIRMENT	
At 1st January, 2006	35,810
Exchange adjustment	1,548
Charge for the year	4,603
At 31st December, 2006	41,961
Exchange adjustment	3,013
Charge for the year	5,057
At 31st December, 2007	50,031
CARRYING VALUES	
At 31st December, 2007	82,203
At 31st December, 2006	81,414

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 into 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 these consolidated financial statements, the amount of compensation for the years ended 31st December, 2006 and 2007, other than amount already received during the year ended 31st December, 2006, is under negotiation and no further agreement on the daily compensation has been entered into by HHED and the Hangzhou City government. Details of the compensation received by the Group during the year ended 31st December, 2006 and 2007 are set out in note 8.

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

At 31st December, 2007, management of the Group determined that there was no impairment on the toll road operation rights. The recoverable amount of the toll road operation rights was determined based on a value in use calculation. That calculation used cash flow projections based on financial budgets approved by management covering a 5 year period and extrapolates cash flows for the remaining years up to 3rd April 2024 using zero growth rate. Management estimates a discount rate of 9.64% (2006: 9.64%). The major assumption made by the directors is that the government compensation would remain at RMB50,000 per day (approximately RMB18.25 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 in the toll road from the years 2004 to 2007;
- 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 31st December, 2007;
- previous legal documents from the Hangzhou City government on the approval of the toll road operation and toll rates being charged; and
- the estimated compensation amount will be recovered from the Hangzhou City government.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1st January, 2006	—	443	831	1,274
Exchange adjustment	—	18	33	51
Additions	—	2	—	2
At 31st December, 2006	—	463	864	1,327
Exchange adjustment	—	35	176	211
Acquired on acquisition of subsidiaries	240	245	51,265	51,750
Additions	51	295	399	745
Disposals	—	(3)	—	(3)
At 31st December, 2007	291	1,035	52,704	54,030
ACCUMULATED DEPRECIATION				
At 1st January, 2006	—	169	507	676
Exchange adjustment	—	8	23	31
Provided during the year	—	52	109	161
At 31st December, 2006	—	229	639	868
Exchange adjustment	—	18	50	68
Provided during the year	15	79	1,855	1,949
Disposals	—	(3)	—	(3)
At 31st December, 2007	15	323	2,544	2,882
CARRYING VALUES				
At 31st December, 2007	276	712	50,160	51,148
At 31st December, 2006	—	234	225	459

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

Leasehold improvements	25%
Furniture, fixtures and equipment	20%-25%
Motor vehicles	10%-20%

At 31st December, 2007, the Group pledged the motor vehicles having a carrying value of approximately HK$33,476,000 (2006: nil) to secure general banking facilities granted to certain subsidiaries of the Group.

The net book value of motor vehicles includes an amount of HK$5,962,000 (2006: nil) in respect of assets held under finance leases.

18. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	2007
	HK$'000
CARRYING AMOUNTS	
Arising on acquisition of subsidiaries (note 31) and at 31st December, 2007	91,872

As explained in note 9, the Group uses business segments as its primary segment for reporting segment information. The goodwill arising on acquisition is attributable to the anticipated profitability of the Group in the business of limousine and airport shuttle rental services, details of which is set out in note 31. For the purposes of impairment testing, goodwill has been allocated to the following cash generating units ("CGUs").

	HK$'000
Airport shuttle rental services in Hong Kong ("Unit A")	10,621
Limousine rental services in Hong Kong ("Unit B")	6,085
Limousine rental services in the PRC ("Unit C")	75,166
	91,872

At 31st December, 2007, management of the Group determined that there was no impairment of any of its CGUs containing goodwill.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarized below:

Unit A

The recoverable amount of this unit was determined based on a value in use calculation. That calculation used cash flow projections based on financial budgets approved by management covering a five-year period and extrapolates cash flow using zero growth rate. The management estimates a discount rate of 11%. Other key assumptions for the value in use calculation relating to the estimation of cash inflows/ outflows which include budgeted revenue and gross margin is based on the unit's past performance and management estimation.

Unit B

The recoverable amount of this unit was determined based on a value in use calculation. That calculation used cash flow projections based on financial budgets approved by management covering a five-year period and extrapolates cash flow using zero growth rate. The management estimates a discount rate of 11%. Other key assumptions for the value in use calculation relating to the estimation of cash inflows/ outflows which include budgeted revenue and gross margin, capital expenditure, are based on the unit's past performance and management estimation.

Unit C

The recoverable amount of this unit was determined based on a value in use calculation. That calculation used cash flow projections based on financial budgets approved by management covering a five-year period and extrapolates cash flow using zero growth rate. The management estimates a discount rate of 19%. Other key assumptions for the value in use calculation relating to the estimation of cash inflows/ outflows which include budgeted revenue, estimated number of customers, charge rate per trip, direct operating costs, capital expenditure, finance arrangement of capital expenditure and interest expense are based on the management best estimation.

19. INTANGIBLE ASSET

	Customer Base
	HK$'000
COST	
Acquired on acquisition of subsidiaries (note 31) and at 31st December, 2007	102,952
AMORTISATION	
Charge for the year and at 31st December, 2007	1,975
CARRYING VALUES	
At 31st December 2007	100,977

The intangible asset represents the customer base of Perryville Group arising from the acquisition of the Perryville Group in October 2007. 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 fair value of the intangible asset of the customer base on date of the completion of the acquisition was determined based on a valuation performed by an independent valuer, Vigers. Vigers is not connected with the Group. The valuation was determined based on a cash flow projection arising from the business to be generated from those customers of the Perryville Group existed on the acquisition date.

The intangible asset has definite useful life and is amortised on a straight-line basis over its expected life of 10 years.

20. INTERESTS IN INFRASTRUCTURE JOINT VENTURES

	2007	**2006**
	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, 2007 and 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 management accounts of unrecognised share of these infrastructure joint ventures, both for the year and cumulatively, are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Unrecognised share of profit /(losses) of jointly controlled entities for the year	791	(1,659)
Accumulated unrecognized share of losses of jointly controlled entities	(34,970)	(35,761)

21. OTHER CURRENT FINANCIAL ASSETS

	2007	**2006**
	HK$'000	*HK$'000*
Trade receivables	13,559	—
Less: allowance for doubtful debts	(104)	—
Trade receivables – net	13,455	—

The Group's credit terms granted to customers of limousine and airport shuttle rental services range between 30 days and 45 days to its customers. An aged analysis of the trade receivables at the reporting dates is as follow:

	2007	**2006**
	HK$'000	*HK$'000*
0-30 days	7,856	—
31-60 days	3,605	—
61-90 days	1,371	—
Over 90 days	623	—
	13,455	—

Before accepting any new customers, the Group will understand the potential customer's credit quality and define its credit limits. Credit limits attributed to customers are reviewed regularly.

At 31st December, 2007, the directors considered that trade receivables which are neither past due but not yet impaired are of good credit quality.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$1,994,000 (2006: nil) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 78 days (2006: nil).

Aging of trade receivables which are past due but not impaired

	2007	2006
	HK$'000	*HK$'000*
61-90 days	1,371	—
Over 90 days	623	—
Total	1,994	—

22. AMOUNTS DUE FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

During the year ended 31st December, 2005, the amount of 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 38(a).

The amounts are unsecured and interest-free. As at 31st December, 2007, 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:

	2007	2006
	HK$'000	*HK$'000*
Over one year	52,674	48,872

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% (2006: 9.64%) on initial recognition.

23. BANK BALANCES AND CASH

The bank balances receive interest at an average rate of 2.01% (2006: 1.08%) per annum. Included in the bank balances and cash were amounts in RMB of approximately HK$8,145,000 (2006: HK$9,536,000), which are not freely convertible into other currencies.

24. OTHER CURRENT FINANCIAL LIABILITIES

Trade payables, other payables and accrued charges comprise amounts outstanding for trade purposes and on-going costs. Trade payables principally comprise amounts outstanding for direct costs. The normal credit period taken for direct costs is 30 days. The following is an aged analysis of trade payables at the balance sheet date:

	2007	**2006**
	HK$'000	*HK$'000*
0-30 days	4,975	—
31-60 days	1,180	—
61-90 days	1	—
Over 90 days	3	—
	6,159	—

The Group has financial risk management policies in place to ensure that all payables made within time frame.

25. BANK BORROWINGS

	2007	**2006**
	HK$'000	*HK$'000*
Bank loans-secured	27,830	—
Carrying amount repayable:		
On demand or within one year	26,183	—
More than one year, but not exceeding two years	1,647	—
	27,830	—
Less: Amounts due within one year shown under current liabilities	(26,183)	—
Amounts due after one year	1,647	—

As at 31st December, 2007, the bank loans were secured by the motor vehicles as disclosed in note 17.

The bank loans carry interest at prevailing market interest rates in Hong Kong. The range of effective interest rate (which are equal to contractual interest rates) on the Group's bank loans is as follows:

Effective interest rate	**2007**	**2006**
Variable rate bank borrowings	5.13% to 6.65%	—

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$38,250,000 as at 31st December, 2007 (2006: nil).

26. OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain of its motor vehicles under finance leases. The average lease term is 4 years. Interest rates underlying all obligations under finance leases are fixed and the average interest rate is 2.375% per annum. No arrangements have been entered into for contingent rental payments.

Amounts payable under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,782	—	1,507	—
In more than one year but not more than two years	1,782	—	1,606	—
In more than two years but not more than five years	2,197	—	2,113	—
	5,761	—	5,226	—
Less: Finance charges	(535)	—	—	—
				—
Present value of lease obligation	5,226	—	5,226	—
Less: Amount due for settlement within 12 months (shown under current liabilities)			(1,507)	—
Amount due for settlement after 12 months			3,719	—

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

27. CONVERTIBLE NOTES

On 13th June, 2007, the Company entered into a Sale and Purchase Agreement (the "S&P Agreement") with Parklane International Holdings Limited ("Parklane"). Pursuant to the S&P Agreement, the Company conditionally agreed to acquire and Parklane conditionally agreed to sell the entire interests in Perryville Group. The consideration for the acquisition was HK$170 million of which HK$50 million was settled by cash and HK$120 million was settled by issue of convertible notes. The acquisition was completed on 22nd October, 2007.

The convertible notes entitle the holders to convert them, in whole or in part, into ordinary shares of the Company at any time between the date of issue of the convertible notes and their settlement on 22nd October, 2012 at the conversion price of HK$0.42 per share subject to anti-dilutive adjustments. The holders may by written notice demand the Company to redeem the convertible notes if trading of the shares of the Company has been suspended for consecutively more than 20 trading days. If the whole amount of the convertible notes is converted on the exercise price of HK$0.42 per share, the Company will issue 285,741,285 conversion shares. If the convertible notes have not been converted, they will be redeemed on 22nd October, 2012 at par. Interest of 2% will be paid annually up to the settlement date. The Company does not have the right to redeem the convertible notes prior to 22nd October 2012.

The convertible notes contain two components, liability and equity elements. The fair value of the liability component included in non-current liabilities was calculated using a market interest rate for the equivalent non-convertible loans. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity heading convertible notes reserve.

The effective interest rate of the convertible notes is 10.2% per annum.

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

	2007
	HK$'000
Carrying amount on 22nd October, 2007, date of issue	82,888
Interest charge *(note 10)*	1,170
Carrying amount at the end of the year	84,058

28. SHARE CAPITAL

	Number of shares		**Share Capital**	
	2007	**2006**	**2007**	**2006**
	'000	*'000*	*HK$'000*	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised				
At beginning of year	800,000	800,000	80,000	80,000
Increase on 18th September, 2007 *(Note a)*	1,200,000	—	120,000	—
At end of year	2,000,000	800,000	200,000	80,000
Issued and fully paid				
At beginning of year	594,838	594,838	59,484	59,484
Issue of new shares *(Notes b and c)*	189,900	—	18,990	—
At end of year	784,738	594,838	78,474	59,484

Notes:

(a) Pursuant to shareholders' approval at the Special General Meeting held on 18th September, 2007, the authorised share capital of the Company has been increased from 800,000,000 shares at HK$0.10 each to 2,000,000,000 shares of HK$0.10 each.

(b) Pursuant to a placing and subscription agreement executed on 15th May, 2007, a total of 118,900,000 ordinary shares were issued at an issue price of HK$0.35 per share, raising net proceeds of approximately HK$40.3 million. The new shares rank pari passu in all respects with the existing shares.

(c) Pursuant to a placing and subscription agreement executed on 16th October, 2007, a total of 71,000,000 ordinary shares were issued at an issue price of HK$0.54 per share, raising net proceeds of approximately HK$37.4 million. The new shares rank pari passu in all respects with the existing shares.

29. DEFERRED TAXATION

The following is the major deferred tax assets (liabilities) recognised by the Group and movements thereon during the current and prior year.

	Tax losses	Repairs and renovation costs	Impairment loss recognised in respect of toll road operation rights	Accelerated tax depreciation	Intangible assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2006	—	874	3,235	—	—	4,109
Exchange adjustment	—	34	124	—	—	158
Charge to consolidated income statement for the year	—	(47)	(172)	—	—	(219)
At 31st December, 2006	—	861	3,187	—	—	4,048
Acquisition of subsidiaries	2,304	—	—	(6,508)	(18,016)	(22,220)
Exchange adjustment	—	61	226	—	—	287
(Charge) credit to consolidated income statement for the year	(644)	(51)	(190)	(86)	345	(626)
At 31st December, 2007	1,660	871	3,223	(6,594)	(17,671)	(18,511)

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2007	2006
	HK$'000	*HK$'000*
Deferred tax assets	5,754	4,048
Deferred tax liabilities	(24,265)	—
	(18,511)	4,048

At 31st December, 2007, the Group had unused tax losses of approximately HK$13.3 million (2006: nil) available to offset future profits. A deferred tax asset has been recognised in respect of HK$9.4 million (2006: nil) of such losses. No deferred tax asset has been recognised in respect of remaining HK$3.9 million (2006: nil) due to unpredictability of future profit streams. Include in unrecognised tax assets are loss of HK$3.9 million (2006: nil) that will expire in 2012. Other loss may be carried forward indefinitely.

30. AMOUNT DUE TO A DIRECTOR

As at 31st December, 2006, the amount due to a director was unsecured and interest-free and the directors confirmed that the amount was not repayable within the next twelve months. On application of HKAS 39, the fair value of the amount due to a director was determined based on an effective interest rate of 8% on initial recognition. The amount was settled during the year ended 31st December, 2007.

31. ACQUISITION OF SUBSIDIARIES

As described in note 27, the Group entered into a S&P Agreement with Parklane. Pursuant to the S&P Agreement, the Company conditionally agreed to acquire and Parklane conditionally agreed to sell the entire interests in Perryville Group Limited, at a consideration of HK$170 million of which HK$50 million was settled in cash and HK$120 million was settled by issue of the convertible notes. The amounts of goodwill and intangible asset arising as a result of the acquisition were HK$91,872,000 and HK$102,952,000 respectively. The acquisition was completed on 22nd October, 2007.

Perryville Group is principally engaged in the provision of limousine and airport shuttle rental services. The net assets acquired in the transaction and the goodwill arising are as follows:

	Acquiree's carrying amount as at 22nd October, 2007	**Fair value adjustment**	**Fair value as at 22nd October, 2007**
	HK$'000	*HK$'000*	*HK$'000*
Intangible asset	—	102,952	102,952
Property, plant and equipment	47,952	3,798	51,750
Deferred tax assets	2,304		2,304
Trade receivables	10,339		10,339
Other receivables, deposits and prepayments	3,393		3,393
Bank balances and cash	4,556		4,556
Trade payables	(4,218)		(4,218)
Other payables and accrued charges	(3,950)		(3,950)
Bank borrowings	(29,725)		(29,725)
Obligations under finance leases	(2,330)		(2,330)
Deferred taxation	(5,843)	(18,681)	(24,524)
Net assets	22,478	88,069	110,547
Goodwill			91,872
Purchase consideration			202,419
Total consideration satisfied by:			
Cash			50,000
Convertible notes at fair value			148,055
Incidental costs			4,364
			202,419

	Fair value as at 22nd October, 2007
	HK$'000
Net cash outflow arising on acquisition	
Cash consideration paid	50,000
Bank and cash balances acquired	(4,556)
Incidental costs	4,364
	49,808

The goodwill arising on acquisition is attributable to the anticipated profitability of the Group in the business of limousine and airport shuttle rental services.

Perryville Group contributed approximately HK$18,948,000 to the Group's revenue, a loss of HK$408,000 to the Group's loss for the period between the date of acquisition and 31st December, 2007. Before recognition of the amortisation of intangible asset of Perryville Group of HK$1,975,000 and deferred tax credit of HK$346,000 for that period. Perryville Group generated a profit of HK$1,221,000.

If the acquisition had been completed on 1st January, 2007, the Group's total revenue for the year would have been approximately HK$93,905,000, and loss for the year would have been approximately HK$7,313,000. Before recognition of the amortisation of intangible asset of HK$10,295,000 and deferred tax credit of HK$1,802,000 for the year, profit for the year would be HK$1,180,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2007, nor is it intended to be a projection of future results.

32. OPERATING LEASE COMMITMENTS

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

	2007	**2006**
	HK$'000	HK$'000
Within one year	2,454	—
In the second to fifth years inclusive	1,158	—
	3,612	—

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

33. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of HK$399,000.

Part of the consideration for the purchase of subsidiaries was settled by the issue of the convertible notes. Further details of the acquisition are set out in note 31.

34. 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 5.37% of the issued share capital of the Company on the date of this 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 approved 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.

35. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. The Group contribute 5% of the employees' basic salaries to the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The PRC 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.

The total cost charged to the consolidated income statements of HK$705,000 (2006: HK$561,000) represents contributions to these schemes by the Group in respect of the current accounting period.

36. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed in notes 10, 12 and 30, during the year ended 31st December, 2007 and 2006, rental expenses were 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:

	2007	**2006**
	HK$'000	*HK$'000*
Short-term employee benefits	1,018	463

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

37. POST BALANCE SHEET EVENTS

(a) On 30th January, 2008, the Company entered into a sale and purchase agreement (the "Agreement") with third parties (the "Vendors") in relation to the acquisition of the entire issued share capital of a company (the "Target Company") and its subsidiary which is principally engaged in the exploitation, processing and sale of copper, lead, zinc, arsenic, silver and other mineral resources in Luchun County, Yunnan Province, the PRC. Pursuant to the Agreement, the Company conditionally agreed to acquire and the Vendors conditionally agreed to dispose of the entire issued share capital of the Target Company for a total consideration of HK$650,000,000. The total consideration will be satisfied (i) as to HK$140,000,000 in cash; (ii) as to HK$103,500,000 by the issue of the Consideration Shares by the Company to the Vendors at the Issue Price; and (iii) as to HK$406,500,000 by the issue of the convertible notes to the Vendors. In facilitating the issue of the consideration shares and the convertible notes, the board of directors intends to put forward a proposal to the shareholders of the Company to increase the authorized ordinary share capital of the Company from HK$200,000,000, divided into 2,000,000,000 shares of HK$0.10 each, to HK$400,000,000, divided into 4,000,000,000 shares of HK$0.10 each, by the addition of HK$200,000,000, divided into 2,000,000,000 new shares. The new shares, upon issue, shall rank pari passu in all respects with the existing shares. Details are disclosed in the announcement dated 12th February, 2008. The acquisition is subject to the approval by the shareholders of the Company at the special general meeting to be held.

(b) Subsequent to balance sheet date, the holder of the convertible notes has converted HK$42 million convertible notes into 100,000,000 ordinary shares of the Company.

38. INTERESTS IN PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries held by the Company at 31st December, 2007 and 2006, except otherwise specified, are as follows:

Name of subsidiary	Country/place of incorporation or establishment	Place of operation	Issued and fully paid share/ registered capital	Proportion ownership interest held by the Company		Proportion of voting power held by the Company	Principal activities
				Directly	Indirectly		
Cableport Holdings Limited	BVI	Hong Kong	US$2	100%	—	100%	Investment holding
Intrum Sino Limited	BVI	Hong Kong	US$2	100%	—	100%	Investment holding
HHED *(Note a)*	PRC *(Note b)*	PRC	RMB170,000,000	—	60%	60%	Operation of toll road
Perryville Group Limited *(Note c)*	BVI	Hong Kong	US$50,000	100%	—	100%	Investment holding
Parklane Limousine Service Limited *(Note c)*	Hong Kong	Hong Kong	HK$5,000,000	—	100%	100%	Limousine rental services
Airport Shuttle Services Limited *(Note c)*	Hong Kong	Hong Kong	HK$10,000	—	100%	100%	Airport shuttle rental services

Notes:

a) 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.

b) The subsidiary was established in the PRC as Sino-foreign equity joint venture.

c) These subsidiaries were acquired in October 2007.

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

In the opinion of the directors, a complete list of the particulars of subsidiaries will be of excessive length and therefore the above list contains only the particulars of those subsidiaries which principally affect the results or net assets of the Group.

3. 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 years ended 31 December 2007 and 2006.

Basis for qualified opinion

Included in the consolidated balance sheet as at 31 December 2007 are toll road operation rights stated at an aggregate carrying amount of approximately HK$82,203,000 (2006: 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 have performed an impairment assessment of these toll road operation rights in the People's Republic of China (the "PRC") and concluded that no impairment loss is required in respect of the toll road operation rights. The assessment was made based on the assumption that the Group will receive a daily compensation of RMB50,000 from Hangzhou City Government, the PRC ("Government") in future years. Other than the amount already received during the year ended 31 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. Other than the compensation of HK$7,804,000 received in 2006, no further compensation has been received or recognized by the Group since then. The Group's PRC lawyer has advised that a civil petition (「民事起訴狀」) was submitted to the PRC court against the Government seeking a judgement on the compensation amount, but the court decision is still pending. However, the Group's PRC lawyer has further advised that the Government has agreed that compensation will be paid to the Group once the amount thereof is finalised. In the absence of an agreement between the Group and the Government, or the court decision, as to the final amount of daily compensation in respect of the years ended 31 December 2006 and 31 December 2007 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 31 December 2007 are deferred tax assets with an aggregate carrying amount of approximately HK$4,094,000 (2006: HK$4,048,000) in respect of the repairs and renovation costs and impairment loss on toll road operation rights as described in note 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 these deferred tax should be reversed.

Included in the consolidated balance sheet as at 31 December 2007 are amounts due from minority shareholders of HHED with an aggregate carrying amount of approximately HK$52,674,000 (2006: HK$48,872,000). As explained in note to the consolidated financial statements, such amounts 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 31 December 2006 and 2007 and its profit/(loss) for the year then ended. The matters referred to above caused us to qualify our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2006 and 2007.

Qualified opinion arising from limitation of audit scope (for the year ended 31 December 2007)

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 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Qualified opinion arising from limitation of audit scope (for the year ended 31 December 2006)

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 31 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.

4. 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 2007, the date to which the latest published audited accounts of the Company were made up.

The following is the text of a report received from the independent reporting accountants, Deloitte Touche Tohmatsu, in respect of the accountants' report on Smart Year for the period from 2 April 2007 (date of incorporation) to 31 December 2007 for inclusion in this circular.

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

30 June 2008

The Directors
Wah Nam International Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Smart Year Investments Limited ("Smart Year") and its subsidiary (hereinafter collectively referred to as (the "Smart Year Group") for the period from 2 April 2007 (date of incorporation) to 31 December 2007 (the "Relevant Period") for inclusion in the circular dated 30 June 2008 issued by Wah Nam International Holdings Limited (the "Company") (the "Circular") in connection with its proposed acquisition of the entire equity interest in Smart Year.

Smart Year was incorporated as a BVI Business Company in the British Virgin Islands (the "BVI") on 2 April 2007. No audited financial statements have been prepared for Smart Year since the date of incorporation as it was incorporated in a country where there is no statutory audit requirement.

The subsidiary has adopted 31 December as its financial year end date. At the date of this report, Smart Year has the following subsidiary:

Name of subsidiary	Country and date of establishment	Issued and fully paid capital	Percentage of equity interest attributable to Smart Year	Principal activities
綠春鑫泰礦業有限公司 Luchun Xingtai Mining Company Limited* ("Luchun Xingtai")	The People's Republic of China (the "PRC") 16 February 2004	RMB20,000,000	90%	Exploration, processing and sale of copper ore concentrate

* *The English name is for identification purpose only.*

For the purpose of this report, the sole director of Smart Year has prepared the consolidated accounts of Smart Year for management purpose in accordance with Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the Relevant Period (the "Underlying Financial Statements"). We have, for the purpose of this report, performed independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

However, the scope of our procedures was limited as Luchun Xingtai did not carry out physical count of its inventories amounting to RMB3,121,512 as at 6 December 2007, the date on which it became a subsidiary of Smart Year. There were no practicable alternative audit procedures that we could apply to verify the existence and condition of the inventories of Luchun Xingtai at that date. Accordingly, we have not been able to satisfy ourselves as to whether the inventories held by Luchun Xingtai at 6 December 2007 were fairly stated. Any adjustments found to be necessary may have an effect on the amount of the inventories as at 6 December 2007 and a consequential effect on the amount attributable to the mining right as at 6 December 2007 and 31 December 2007 and on the results and cash flows of the Smart Year Group for the Relevant Period.

The Financial Information of the Smart Year Group for the Relevant Period set out in this report has been prepared from the Underlying Financial Statements for the purpose of preparing our report for inclusion in the Circular without making any adjustments. The preparation of the Underlying Financial Statements is the responsibility of the sole director of Smart Year. 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.

Because of the significance of the possible effects of the limitation in the scope of our audit work referred to above, we are unable to form an opinion as to whether the Financial Information gives, for the purpose of this report, a true and fair view of the results of the Smart Year Group for the Relevant Period.

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 whether the inventories held by Luchun Xingtai as at 6 December 2007 were fairly stated, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Smart Year Group and Smart Year as at 31 December 2007 and of the cash flows of the Smart Year Group for the Relevant Period.

A. FINANCIAL INFORMATION

Consolidated income statement

For the period from 2 April 2007 (date of incorporation) to 31 December 2007

	Notes	*RMB*
Revenue	*8*	2,620,775
Cost of sales		(3,205,494)
Gross loss		(584,719)
Other income		15,780
Administrative expenses		(2,894,509)
Loss before tax		(3,463,448)
Income tax expense	*9*	—
Loss for the period	*10*	(3,463,448)
Attributable to:		
Equity holders of the Company		(3,120,767)
Minority interests		(342,681)
		(3,463,448)

Consolidated balance sheet
At 31 December 2007

	Notes	*RMB*
Non-current assets		
Property, plant and equipment	*12*	24,957,411
Mining right	*13*	11,768,072
Deposits for purchase of property, plant and equipment		121,832
		36,847,315
Current assets		
Inventories	*14*	1,323,115
Other receivables and prepayments	*15*	1,378,235
Amount due from a related party	*16*	46,352
Bank balances and cash	*18*	17,719,934
		20,467,636
Current liabilities		
Trade and other payables	*19*	22,626,424
Amounts due to related parties	*16*	360,042
Amount due to the minority shareholder of a subsidiary	*17*	18,956,496
		41,942,962
Net current liabilities		(21,475,326)
Net assets		15,371,989
Capital and reserves		
Share capital	*22*	72,761
Reserves		14,401,396
		14,474,157
Minority interests		482,311
Total equity		14,956,468
Non-current liability		
Provision for restoration cost	*20*	415,521
		15,371,989

Balance sheet
At 31 December 2007

	Notes	*RMB*
Non-current asset		
Investment in a subsidiary	*21*	18,000,000
Current assets		
Amount due from a related party	*16*	46,352
Bank balances	*18*	17,708,574
		17,754,926
Current liabilities		
Other payables	*19*	4,000,000
Amounts due to related parties	*16*	196,642
Amount due to the minority shareholder of a subsidiary	*17*	14,000,000
		18,196,642
Net current liabilities		(441,716)
Net assets		17,558,284
Capital and reserves		
Share capital	*22*	72,761
Reserves	*23*	17,485,523
Total equity		17,558,284

Consolidated statement of changes in equity

For the period from 2 April 2007 (date of incorporation) to 31 December 2007

	Attributable to equity holders of the Company					
	Paid-in capital	Share premium	Accumulated loss	Total	Minority interests	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Share issued on 20 April 2007	7	—	—	7	—	7
Shares issued on 19 December 2007	66,933	—	—	66,933	—	66,933
Shares issued on 20 December 2007	5,821	17,522,163	—	17,527,984	—	17,527,984
Arising on purchase of a subsidiary *(note 24)*	—	—	—	—	824,992	824,992
Loss and total recognised expense for the period	—	—	(3,120,767)	(3,120,767)	(342,681)	(3,463,448)
At 31 December 2007	72,761	17,522,163	(3,120,767)	14,474,157	482,311	14,956,468

Consolidated cash flow statement

For the period from 2 April 2007 (date of incorporation) to 31 December 2007

	RMB
OPERATING ACTIVITIES	
Loss for the period	(3,463,448)
Adjustments for:	
Amortisation of mining right	750
Depreciation of property, plant and equipment	29,624
Loss on disposal of property, plant and equipment	334,124
Allowances for bad and doubtful debts	1,000
Bank interest income	(1,574)
Operating cash flows before movements in working capital	(3,099,524)
Decrease in inventories	1,798,397
Decrease in other receivables and prepayments	9,313,643
Decrease in trade and other payables	(6,869,150)
Decrease in amount due from a related party	3,820,193
NET CASH FROM OPERATING ACTIVITIES	4,963,559
INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(3,643,348)
Acquisition of assets through purchase of a subsidiary *(note 24)*	594,652
Interest received	1,574
NET CASH USED IN INVESTING ACTIVITIES	(3,047,122)
FINANCING ACTIVITIES	
Proceeds from issue of shares	17,594,924
Repayment to related parties	(6,747,923)
Advance from minority shareholder of a subsidiary	4,956,496
NET CASH FROM FINANCING ACTIVITIES	15,803,497
NET INCREASE IN CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	17,719,934

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PREPARATION OF FINANCIAL INFORMATION

Smart Year was established as a BVI Business Company in the BVI and acts as an investment holding company. Luchun Xingtai is engaged in the business of exploration, processing and sale of copper ore concentrate. The address of the registered office of Smart Year is P.O. Box 957, Offshore Incorporations, Centre Road Town, Tortola, British Virgin Islands. The principal place of business of Luchun Xingtai is 5th Floor, Community Centre, 394 East Renmin Road, Kunming, Yunnan, the PRC. The mine of Luchun Xingtai is located in 雲南省紅河洲綠春縣大馬尖山 Damajianshan, Honghe Zhou, Luchun County, Yunnan, the PRC.

The Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of Smart Year for the Relevant Period.

The Financial Information has been prepared on a going concern basis notwithstanding the fact that the Smart Year Group had net current liabilities of approximately RMB21,475,000 at 31 December 2007. In the event of unsuccessful completion of the acquisition of Smart Year by Golden Genie Limited, one of the shareholders of Smart Year and 雲南貿盛緣工貿有限公司 Yunnan Maosheng Yuan Industry and Trading Co., Ltd.* ("MSY"), the minority shareholder of a subsidiary, have agreed to provide adequate funds to enable Smart Year and Luchun Xingtai, respectively, to meet in full their financial obligations as they fall due for the foreseeable future.

In the event of the successful completion of the acquisition of Smart Year by Golden Genie Limited, a wholly-owned subsidiary of the Company, the Company will provide the financial support to the Smart Year Group to enable it to meet its financial obligations as they fall due for the foreseeable future.

* The English name is for identification purpose only.

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

At the date of this report, the HKICPA has issued the following new, revised or amended standards and interpretations that are not yet effective on 1 January 2007.

The Smart Year Group has not early applied these new, revised or amended standards and interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKAS 27 (Revised)	Consolidated and separate financial statements [2]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [1]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [1]
HKFRS 3 (Revised)	Business combinations [2]
HKFRS 8	Operating segments [1]
HK(IFRIC) — Int 11	HKFRS 2: Group and treasury share transactions [3]
HK(IFRIC) — Int 12	Service concession arrangements [4]
HK(IFRIC) — Int 13	Customer loyalty programmes [5]
HK(IFRIC) — Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction [4]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 July 2009.
[3] Effective for annual periods beginning on or after 1 March 2007.
[4] Effective for annual periods beginning on or after 1 January 2008.
[5] Effective for annual periods beginning on or after 1 July 2008.

The management of the Smart Year Group anticipates that the application of these new, revised or amended standards and interpretations will have no material impact on the Financial Information of the Smart Year Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

Where necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with those used by other members of the Smart Year Group.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of sales related tax.

Sales of goods are recognised when goods are delivered and title has passed.

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.

Investment in a subsidiary

Investment in a subsidiary is included in balance sheet of Smart Year at cost less any identified impairment loss.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 income statement in the year in which the item is derecognised.

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 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.

Retirement benefits costs

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

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 period. Taxable profit differs from profit as reported in the 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 Smart Year 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 amounts of assets and liabilities in the balance sheet 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 differences arise from the initial recognition of 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 period 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 credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment of assets

At each balance sheet date, the Smart Year Group reviews the carrying amounts of its assets to determine whether there is 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.

Mining right

Mining right is stated at cost less accumulated amortisation and accumulated impairment losses. The mining right is amortised using the units of production method based on the proven and probable mineral reserves.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Smart Year Group and Smart Year become 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 Smart Year Group's and Smart Year's financial assets are mainly classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis.

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 (i) the Smart Year Group's other receivables, amount due from a related party and bank balances and cash and (ii) Smart Year's amount due from a related party and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. The accounting policy on impairment loss of financial assets is set out below.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been impacted.

Objective evidence of impairment includes:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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.

The carrying amount is reduced by the impairment loss directly for all loans and receivables with the exception of other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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 the Smart Year Group and Smart Year 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 Smart Year Group and Smart Year after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including (i) the Smart Year Group's trade and other payables, amount due to the minority shareholder of a subsidiary and amounts due to related parties and (ii) Smart Year's other payables, amounts due to related parties and amount due to the minority shareholder of a subsidiary), are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by Smart Year 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 Smart Year Group and Smart Year have 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 or 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 or payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Smart Year Group has a present obligation as a result of a past event, and it is probable that the Smart Year Group will be required to settle that obligation. Provisions are measured at the director's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Smart Year Group's accounting policies, the director of Smart Year has made the following judgement that has a significant effect on the amounts recognised in the Financial Information:

Useful life of mining right

The director of Smart Year determines the estimated useful life of its mining right based on the proven and probable mineral reserves. However, the mining right is granted for a term of 5 years expiring in 2012. The director of Smart Year is of the opinion that the Smart Year Group will be able to continuously renew the mining right at minimal charges from the relevant government authorities.

5. CAPITAL RISK MANAGEMENT

The Smart Year Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Smart Year Group's overall strategy remains unchanged during the Relevant Period.

The capital structure of the Smart Year Group's consists of debt, details of which are disclosed in notes 16 and 17 and equity attributable to equity holders of Smart Year comprising issued capital and accumulated losses.

The director of Smart Year reviews the capital structure on a regular basis. As part of this review, the director of Smart Year considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the director, the Smart Year Group will balance its overall capital structure through the payment of dividends, new capital issues and the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Smart Year Group's major financial instruments include other receivables, amounts due from/to related parties, bank balances and cash, trade and other payables as well as amount due to the minority shareholder of a subsidiary. Smart Year's major financial instruments include amount from a related company, bank balances, other payables, amounts due to related parties and amount due to the minority shareholder of a subsidiary. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of Smart Year manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Smart Year Group's principal financial assets are other receivables, amounts due from related parties as well as bank balances and cash, which represent the Smart Year Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Smart Year Group closely follows up the outstanding amounts and reviews the recoverable amount of each individual debt at each balance sheet date to ensure adequate impairment losses are made for irrecoverable amounts. In this regards, the director of Smart Year considers that the credit risk of the Smart Year Group is significantly reduced.

The amount due from a related party has limited credit risk, as the director of Smart Year considered that the party is the shareholder of Smart Year who is financially sound. Hence, the Smart Year Group does not expect any credit risk on the amount outstanding.

The credit risk for bank balances is considered minimal as such amounts are placed with banks with good credit standing.

Liquidity risk

The Smart Year Group had net current liabilities amounting to approximately RMB21,475,000 at 31 December 2007. The Smart Year Group is exposed to liquidity risk of being unable to raise sufficient funds to meet its financial obligations when they fall due.

To manage the liquidity risk, the Smart Year Group has obtained financial supports (as described in note 1 to the Financial Information) to meet in full its financial obligations as and when they arise and to continue its operations in the foreseeable future.

The following table details the Smart Year Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Smart Year Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity table

	Less than 6 months	**6 months to 1 year**	**Total undiscounted cash flows**	**Total carrying amount at balance sheet date**
	RMB	*RMB*	*RMB*	*RMB*
The Smart Year Group				
As at 31 December 2007				
Trade and other payables	4,327,448	17,899,524	22,226,972	22,226,972
Amount due to minority shareholder of a subsidiary	18,956,496	—	18,956,496	18,956,496
Amounts due to related companies	360,042	—	360,042	360,042
	23,643,986	17,899,524	41,543,510	41,543,510
Smart Year				
As at 31 December 2007				
Other payables	4,000,000	—	4,000,000	4,000,000
Amounts due to related parties	196,642	—	196,642	196,642
Amount due to the minority shareholder of a subsidiary	14,000,000	—	14,000,000	14,000,000
	18,196,642	—	18,196,642	18,196,642

Commodity price risk

The Smart Year Group is exposed to fluctuations of commodity price of copper concentrate which is the major commodity product and sold by the Smart Year Group. The management manages and monitors these exposure to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Smart Year Group's cash flow interest rate risk primarily relates to variable-rate bank balances. The Smart Year Group currently does not have an interest rate hedging policy. However, the director of Smart Year considers the interest rate risk of the Smart Year Group is insignificant as the major bank balance is non-interest bearing as disclosed in note 18.

Currency risk

The director of Smart Year considers that the Smart Year Group had no currency risk exposure as Luchun Xingtai had no significant foreign currency transaction during the Relevant Period.

b. Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rates.

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

c. Categories of financial instruments

	Smart Year Group	Smart Year
	RMB	*RMB*
Financial assets		
— Loans and receivables (including cash and cash equivalents)	17,801,871	17,754,926
Financial liabilities		
— Amortised cost	41,543,510	18,196,642

7. SEGMENT INFORMATION

a. Business segments

The Smart Year Group's operation is regarded as a single business segment, being engaged in the exploration, processing and sales of copper ore concentrate.

b. Geographical segments

As all of the revenue and operating results of the Smart Year Group for the Relevant Period are derived in the PRC, an analysis of the revenue and operating results of the Smart Year Group by geographic location is not presented.

The Smart Year Group's operating assets and liabilities are located in the PRC.

8. REVENUE

Revenue represents the amounts received and receivable for sale of copper ore concentrate during the Relevant Period, net of sales related tax.

9. INCOME TAX EXPENSE

The Smart Year Group is subject to PRC enterprise income tax at the rate of 33% on assessable profits during the Relevant Period.

The income tax expense for the period can be reconciled to the loss before tax per the income statement as follows:

	RMB
Loss before tax	(3,463,448)
Tax at the PRC enterprise income tax rate of 33%	(1,142,938)
Tax effect of expenses not deductible for tax purpose	229,327
Tax effect of tax loss not recognised	913,611
Income tax expense	—

On 16 March 2007, the PRC government promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued the Implementation Regulations of the New Law. The New Law and the Implementation Regulations will change the tax rate from 33% to 25% for the Smart Year Group from 1 January 2008.

The Smart Year Group had estimated unused tax loss of approximately RMB2.8 million as at 31 December 2007. No deferred tax asset has been recognised in respect of the tax loss due to the unpredictability of future profit streams. The unrecognised tax loss may be carried forward for a period of five years from their respective year of originating.

10. LOSS FOR THE PERIOD

	RMB
Loss for the period has been arrived at after charging:	
Salaries, allowances and other benefits	350,950
Auditor's remuneration	—
Amortisation of mining right included in cost of sales	750
Depreciation of property, plant and equipment	29,624
Loss on disposal of property, plant and equipment	334,124
Allowances for bad and doubtful debts	1,000
Cost of inventories recognised as an expense	3,204,744
Rental expenses in respect of rented premises	2,145
and after crediting:	
Bank interest income	1,574

11. DIRECTOR'S AND EMPLOYEES' EMOLUMENTS

During the Relevant Period, no emolument was paid or payable to the director of Smart Year.

The emoluments of the five highest paid individuals of the Smart Year Group, which are individually below HK$1,000,000, are as follows:

	RMB
Salaries, allowances and other benefits	5,333
Contributions to retirement benefit scheme	1,067
	6,400

During the Relevant Period, no emolument was paid by the Smart Year Group to the director and five highest paid individuals of the Smart Year Group as an inducement to join or upon joining the Smart Year Group or as a compensation for loss of office.

12. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures, plant, machinery and mining structure	**Motor vehicles**	**Construction in progress**	**Total**
	RMB	*RMB*	*RMB*	*RMB*
Smart Year Group				
COST				
At the date of incorporation	—	—	—	—
Acquired through purchase of a subsidiary *(note 24)*	3,803,435	402,112	17,472,264	21,677,811
Additions	2,688,980	—	954,368	3,643,348
Disposal	—	—	(334,124)	(334,124)
Transfer	4,535,000	—	(4,535,000)	—
At 31 December 2007	11,027,415	402,112	13,557,508	24,987,035
ACCUMULATED DEPRECIATION				
At the date of incorporation	—	—	—	—
Provided for the period	27,940	1,684	—	29,624
At 31 December 2007	27,940	1,684	—	29,624
CARRYING VALUES				
At 31 December 2007	10,999,475	400,428	13,557,508	24,957,411

The above property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis after taking into account their estimated residual values at the following rates per annum:

Furniture, fixtures, plant, machinery and mining structure	Units of production or 8 years, whichever is shorter
Motor vehicles	8 years

At 31 December 2007, the Smart Year Group pledged furniture, fixtures, plant and machinery and motor vehicles having a net book value of approximately RMB10,984,000 to a bank to secure general banking facilities granted to related companies, namely, MSY and 雲南銳聚源商貿有限公司 Yunnan Rui Juyuan Trading Co., Ltd.* ("RJY"), of which the relationship is disclosed in note 16(c).

* The English name is for identification purpose only.

13. MINING RIGHT

	Smart Year Group
	RMB
COST	
At the date of incorporation	—
Acquired through purchase of a subsidiary *(note 24)*	11,768,822
At 31 December 2007	11,768,822
AMORTISATION	
At the date of incorporation	—
Charge for the period	(750)
At 31 December 2007	(750)
CARRYING VALUE	
At 31 December 2007	11,768,072

This represents the right to conduct mining activities in 雲南省紅河洲綠春縣大馬尖山 Damajianshan, Honghe Zhou, Luchun County, Yunnan.

The mine is located on land in the PRC (the "Land") to which the Smart Year Group has no formal title. The Smart Year Group is in the process of obtaining the land use right certificate.

Yunnan State Land Resources Bureau issued the mining right certificate to Luchun Xingtai in January 2005. The mining right certificate was renewed in 2007 for a period of five years to September 2012. The Smart Year Group is in the process of obtaining a revised mining right certificate as Luchun Xingtai was transformed from a domestic limited liability company to a sino-foreign equity joint venture limited liability company.

Pursuant to the payment notice issued by Yunnan State Land Resources Bureau in July 2007, the Smart Year Group is required to pay a fee of RMB1,196,000 for the exploration of the mine for the renewal period mentioned above. At 31 December 2007, the Smart Year Group paid RMB800,000. Subsequent to the balance sheet date, the Smart Year Group paid RMB200,000 to the Yunnan government. The director of Smart Year represents that the remaining RMB196,000 remained unsettled at the date of this report.

As at 31 December 2007, the mining right was pledged to a bank to secure a total bank loan of RMB60 million granted to MSY and RJY.

14. INVENTORIES

	Smart Year Group
	RMB
Raw materials	625,486
Work in progress	668,130
Finished goods	29,499
	1,323,115

15. OTHER RECEIVABLES AND PREPAYMENTS

	Smart Year Group
	RMB
Other receivables	36,585
Less: Allowance for bad and doubtful debts	(1,000)
	35,585
Prepayments	1,342,650
	1,378,235

Movement in the allowance for bad and doubtful debts is as follows:

	Smart Year Group
	RMB
Impairment loss recognised for the period and balance at 31 December 2007	1,000

Included in allowance for bad and doubtful debts are individually impaired other receivables which are considered as irrecoverable.

16. AMOUNTS DUE FROM/TO RELATED PARTIES

	Smart Year Group	Smart Year
	RMB	*RMB*
Amount due from:		
— the sole director		
Ho Pui Fan *(note a)*	46,352	46,352
Amount due to:		
— a shareholder:		
Top Respect Holdings Limited *(note b)*	196,642	196,642
— a related party:		
RJY *(note c)*	163,400	—
	360,042	196,642

Notes:

(a) Ho Pui Fan owned 92% equity interest in Smart Year as at 31 December 2007.

(b) Top Respect Holdings Limited owned 8% equity interest in Smart Year as at 31 December 2007.

(c) The owner of RJY, Ms. Zhang Rui, is the sister of Ms. Zhang Li, who owned 94% equity interest in MSY, the minority shareholder of Luchun Xingtai, as at 31 December 2007. Accordingly, both MSY and RJY are considered as related companies as at 31 December 2007.

(d) The balances with related parties are unsecured, non-interest bearing and repayable on demand.

17. AMOUNT DUE TO THE MINORITY SHAREHOLDER OF A SUBSIDIARY

Smart Year Group and Smart Year

The amount is due to MSY and unsecured, non-interest bearing and repayable on demand.

18. BANK BALANCES AND CASH

Smart Year Group and Smart Year

Bank balances and cash comprise cash and the current accounts with banks.

Included in the Smart Year Group's bank balances and cash at 31 December 2007 is an aggregate amount of RMB17,708,574 which is denominated in Hong Kong dollars. The bank balances and cash of RMB11,360 and RMB198,117, which are denominated in Renminbi carry interest at an average prevailing market rate of 0.72% per annum and Hong Kong dollars carry interest at an average prevailing market rate of 0.1% per annum respectively. The remaining bank balance of RMB17,510,457 is non-interest bearing.

19. TRADE AND OTHER PAYABLES

	Smart Year Group	**Smart Year**
	RMB	*RMB*
Trade payables	400,937	—
Other payables and accruals	22,225,487	4,000,000
Total trade and other payables	22,626,424	4,000,000

The following is an aged analysis of trade payables at the balance sheet date:

	RMB
Up to 30 days	141,848
31 — 90 days	185,600
More than 90 days	73,489
	400,937

20. PROVISION FOR RESTORATION COST

	Smart Year Group
	RMB
Provision for the period and balance at 31 December 2007	415,521

In accordance with relevant PRC rules and regulations, the Smart Year Group is obliged to accrue the cost for land restoration for the existing mine starting from 2007. The provision for restoration cost represents the director of Smart Year's estimation of the Smart Year Group's liability for land restoration.

21. INVESTMENT IN A SUBSIDIARY

	RMB
Unlisted investment, at cost	18,000,000

22. SHARE CAPITAL

	Share capital	Amount
		US$
Authorised share capital of US$1 each	50,000	50,000
Issued share capital		
Share issued on 20 April 2007 *(note a)*	1	1
Shares issued on 19 December 2007 *(note b)*	9,199	9,199
Shares issued on 20 December 2007 *(note c)*	800	800
	10,000	10,000
		RMB
Equivalent to		72,761

Notes:

(a) On 20 April 2007, Smart Year issued 1 share at US$1.

(b) On 19 December 2007, Smart Year issued additional 9,199 shares at US$1.

(c) On 20 December 2007, Smart Year issued additional 800 shares at an aggregate amount of HK$18,790,000 (equivalent to RMB17,527,984), resulting in share premium of RMB17,522,163.

23. RESERVES OF SMART YEAR

	Share premium *RMB*	Accumulated loss *RMB*	Total *RMB*
Issue of shares at premium	17,522,163	—	17,522,163
Loss for the period	—	(36,640)	(36,640)
At 31 December 2007	17,522,163	(36,640)	17,485,523

24. ACQUISITION OF ASSETS THROUGH PURCHASE OF A SUBSIDIARY

On 6 December 2007, Smart Year acquired 90% equity interest in Luchun Xingtai at a consideration of RMB18,000,000.

Through the acquisition of Luchun Xingtai, Smart Year in substance acquired the following assets and liabilities:

	Net assets acquired *RMB*
Mining right	11,768,822
Property, plant and equipment	21,677,811
Deposits for purchase of property, plant and equipment	121,832
Inventories	3,121,512
Other receivables and prepayments	10,692,878
Amount due from a related party	3,866,545
Bank balances and cash	594,652
Trade and other payables	(25,495,574)
Amounts due to related parties	(7,107,965)
Provision for restoration cost	(415,521)
	18,824,992
Minority interests	(824,992)
Total consideration	18,000,000
Satisfied by:	
Cash *(note)*	18,000,000
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	594,652

Note: The consideration for this acquisition was settled after 31 December 2007 by Smart Year. As at 31 December 2007, the consideration amounting to RMB4,000,000 and RMB14,000,000 were included in other payables and amount due to the minority shareholder of a subsidiary in the balance sheet. Such amounts had been fully settled subsequent to 31 December 2007.

25. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Smart Year Group had commitments for future minimum lease payments in respect of premises under non-cancellable operating lease which fall due as follows:

	RMB
Within one year	21,785
In the second to fifth year inclusive	8,000
After the fifth year	8,583
	38,368

Leases are negotiated and rentals are fixed for a period ranging from one to ten years.

Smart Year had no operating lease commitment at the balance sheet date.

26. CAPITAL COMMITMENTS

(a) Capital commitment

	Smart Year Group *RMB*	**Smart Year** *RMB*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the Financial Information	13,221,023	—

(b) Other commitment

Pursuant to the relevant regulations in Yunnan, mining operator is required to take measure to restore and clean up the site after the exploration of the mine. In order to ensure that the mining operator will fulfill the obligation of rehabilitation, the mining operator in Yunnan is required to pay guarantee deposits to the Yunnan government. Such guarantee deposits will be refunded to the mining operator upon the completion of rehabilitation. If the mining operator is unable to fulfill its rehabilitation obligations, Yunnan government will appoint a third party to perform the rehabilitation. The costs incurred will be offset against the guarantee deposits. If the costs exceed the guarantee deposits received, the mining operator is obliged to pay the excess amount. Pursuant to the notice issued by Yunnan State Land and Resources bureau, Luchun Xingtai is required to pay total guarantee deposits of approximately RMB2,199,600 to the Yunnan government for the period from January 2005 to January 2007, and pursuant to the relevant regulations Luchun Xingtai is also required to pay further guarantee deposits of approximately RMB10,998,000 to the Yunnan government for the period from September 2007 to September 2012. Such amounts have not been paid by Luchun Xingtai at 31 December 2007.

27. RETIREMENT BENEFIT PLAN

The employees of the Smart Year Group are members of the state-managed retirement benefit scheme operated by the PRC government. The Smart Year Group is required to contribute a certain percentage of its payroll to the retirement benefit scheme to fund the benefits. The only obligation of the Smart Year Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

28. RELATED PARTY TRANSACTIONS

(a) During the Relevant Period, the Smart Year Group entered into the following significant transactions with related parties:

Name of related parties	Nature of transactions	*RMB*
MSY	Sales	2,620,775
RJY	Purchase of property, plant and equipment	76,800

(b) As at 31 December 2007, the Smart Year Group pledged its mining right and certain of its property, plant and equipment to a bank to secure the bank loans granted to MSY and RJY. The Smart Year Group did not charge MSY and RJY for the assets pledged to the bank.

(c) During the Relevant Period, MSY and RJY provided management services and administrative services to the Smart Year Group. They did not charge the Smart Year Group for the services provided.

(d) During the Relevant Period, MSY provided certain property, plant and equipment to the Smart Year Group for its production use. MSY did not charge the Smart Year Group for the assets provided.

(e) Compensation of key management personnel

Key management personnel of the Smart Year Group is the director of Smart Year where her remuneration for the Relevant Period has been disclosed in note 11.

29. SUBSEQUENT EVENTS

(a) Subsequent to 31 December 2007, MSY transferred certain property, plant and equipment to the Smart Year Group at nil consideration.

(b) Pursuant to the letter of indemnity provided by MSY dated 5 June 2008, MSY agreed to indemnify the Smart Year Group, against any loss or liability suffered by the Smart Year Group arising out of or in connection with, amongst others, in respect of the assets as mentioned in (a) above to be transferred to the Smart Year Group and the social insurance and penalties in relation to the Smart Year Group during the Relevant Period imposed by the PRC governmental, official or regulatory authorities without any limitation in time.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Smart Year Group, Smart Year and Luchun Xingtai have been prepared in respect of any period subsequent to 31 December 2007.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of a report received from the independent reporting accountants, Deloitte Touche Tohmatsu, in respect of the accountants' report on Luchun Xingtai for the three financial years ended 31 December 2007 for inclusion in this circular.

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

30 June 2008

The Directors
Wah Nam International Holdings Limited

Dear Sirs,

We set out below our report on the financial information ("Financial Information") regarding 綠春鑫泰礦業有限公司 Luchun Xingtai Mining Company Limited* (formerly known as 個舊市川田礦產有限責任公司 Ge Jiu Shi Chuang Tin Mining Co., Ltd.*) ("Luchun Xingtai") for each of the three years ended 31 December 2007 (the "Relevant Period") for inclusion in the circular dated 30 June 2008 (the "Circular") issued by Wah Nam International Holdings Limited (the "Company") in connection with its proposed acquisition of the entire equity interest in Smart Year Investments Limited ("Smart Year").

Luchun Xingtai was established as a domestic limited liability company in the People's Republic of China (the "PRC") on 16 February 2004. It became a 90% owned subsidiary of Smart Year upon its acquisition on 6 December 2007. Pursuant to the certificate of approval issued by the relevant government authorities of Yunnan Province of the PRC, Luchun Xingtai was converted to a sino-foreign equity joint venture limited liability company on 6 December 2007. As at the date of this report, the registered and paid-up capital of Luchun Xingtai is RMB20,000,000. The principal activities of Luchun Xingtai are exploration, processing and sales of copper ore concentrates in the PRC.

No statutory audited financial statements have been prepared for Luchun Xingtai since its date of incorporation to 31 December 2006. As explained by the directors of Luchun Xingtai, there was no statutory audit requirement for Luchun Xingtai in the PRC during this period. The statutory financial statements of Luchun Xingtai for the year ended 31 December 2007, which were prepared in accordance with relevant accounting principles and regulations applicable to enterprises established in the PRC, were audited by 昆明亞太會計師事務所有限責任公司, Kunming Yatai Certified Public Accountants Co., Limited*, a firm of certified public accountants registered in the PRC. For the purpose of this report, the directors of Luchun Xingtai have prepared management accounts for the Relevant Period in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "HKFRSs Financial Statements"). We have, for the purpose of this report, performed independent audit procedures on the HKFRSs Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the HKFRSs Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

* *The English name is for identification purpose only.*

However, the scope of our procedures was limited as Luchun Xingtai did not carry out physical counts of its inventories amounting to RMB2,154,969 and RMB6,559,610 as at 31 December 2005 and 2006 respectively. There were no practicable alternative audit procedures that we could apply to verify the existence and condition of the inventories of Luchun Xingtai at those dates. Accordingly, we have not been able to satisfy ourselves as to whether the inventories held by Luchun Xingtai at 31 December 2005 and 2006 were fairly stated. Any adjustments found to be necessary may have an effect on the financial position of Luchun Xingtai as at 31 December 2005 and 2006 and on its results for each of the Relevant Period.

The Financial Information set out in this report has been prepared from the HKFRSs Financial Statements for the purpose of preparing our report for inclusion in the Circular without making any adjustments.

The HKFRSs Financial Statements are the responsibility of the directors of Luchun Xingtai, who approved 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 HKFRSs Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

Because of the significance of the possible effects of the limitation in the scope of our audit work referred to above, we are unable to form an opinion as to whether the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Luchun Xingtai as at 31 December 2005 and 2006 and of its results and cash flows for the Relevant Period.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Luchun Xingtai as at 31 December 2007.

A. FINANCIAL INFORMATION

Income Statements

		Year ended 31 December		
		2005	**2006**	**2007**
	Notes	*RMB*	*RMB*	*RMB*
Revenue	*9*	—	1,962,138	9,158,766
Cost of sales		—	(2,677,234)	(13,725,196)
Gross loss		—	(715,096)	(4,566,430)
Other income		706	15,943	690,644
Administrative expenses		(2,583,268)	(1,566,667)	(6,452,720)
Loss before tax		(2,582,562)	(2,265,820)	(10,328,506)
Income tax expense	*10*	—	—	—
Loss for the year	*11*	(2,582,562)	(2,265,820)	(10,328,506)

Balance Sheets

		At 31 December		
		2005	**2006**	**2007**
	Notes	*RMB*	*RMB*	*RMB*
Non-current assets				
Property, plant and equipment	*13*	2,899,399	3,316,839	24,957,411
Mining right	*14*	—	—	1,193,000
Deposits for purchase of property, plant and equipment		484,000	955,976	121,832
		3,383,399	4,272,815	26,272,243
Current assets				
Inventories	*15*	2,154,969	6,559,610	1,323,115
Other receivables and prepayments	*16*	162,435	395,338	1,378,235
Amounts due from related parties	*17*	701,780	2,000,000	—
Bank balances and cash	*18*	237,700	139,979	11,360
		3,256,884	9,094,927	2,712,710
Current liabilities				
Trade and other payables	*19*	4,936,778	2,749,057	18,626,424
Amounts due to related parties	*17*	3,786,067	14,967,067	5,119,896
		8,722,845	17,716,124	23,746,320
Net current liabilities		(5,465,961)	(8,621,197)	(21,033,610)
Net (liabilities) assets		(2,082,562)	(4,348,382)	5,238,633
Capital and reserve				
Paid-up capital	*21*	500,000	500,000	20,000,000
Accumulated losses		(2,582,562)	(4,848,382)	(15,176,888)
		(2,082,562)	(4,348,382)	4,823,112
Non-current liability				
Provision for restoration cost	*20*	—	—	415,521
		(2,082,562)	(4,348,382)	5,238,633

Statements of Changes in Equity

	Paid-up capital *RMB*	**Accumulated losses** *RMB*	**Total** *RMB*
At 1 January 2005	500,000	—	500,000
Loss and total recognised expense for the year	—	(2,582,562)	(2,582,562)
At 31 December 2005	500,000	(2,582,562)	(2,082,562)
Loss and total recognised expense for the year	—	(2,265,820)	(2,265,820)
At 31 December 2006	500,000	(4,848,382)	(4,348,382)
Loss and total recognised expense for the year	—	(10,328,506)	(10,328,506)
Capital contribution	19,500,000	—	19,500,000
At 31 December 2007	20,000,000	(15,176,888)	4,823,112

Cash Flow Statements

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB	*RMB*	*RMB*
OPERATING ACTIVITIES			
Loss before tax	(2,582,562)	(2,265,820)	(10,328,506)
Adjustments for:			
Amortisation of mining right	—	—	3,000
Depreciation of property, plant and equipment	52,247	159,462	528,373
Allowances for bad and doubtful debts	374,810	61,572	14,113
Loss on disposal of property, plant and equipment	—	—	574,470
Impairment loss of inventories	—	48,686	135,010
Bank interest income	(706)	(1,438)	(18,882)
Operating cash flows before movements in working capital	(2,156,211)	(1,997,538)	(9,092,422)
(Increase) decrease in inventories	(2,154,969)	(4,453,327)	5,101,485
Increase in other receivables and prepayments	(37,245)	(294,475)	(997,010)
(Increase) decrease in amounts due from related parties	(701,780)	(1,298,220)	2,000,000
Increase (decrease) in trade and other payables	4,936,778	(2,187,721)	15,481,367
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(113,427)	(10,231,281)	12,493,420
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(2,951,646)	(100,902)	(21,371,918)
Deposits paid for purchase of property, plant and equipment	(484,000)	(947,976)	(121,832)
Payment for mining right	—	—	(800,000)
Interest received	706	1,438	18,882
NET CASH USED IN INVESTING ACTIVITIES	(3,434,940)	(1,047,440)	(22,274,868)

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB	*RMB*	*RMB*
FINANCING ACTIVITIES			
Increase (decrease) in amounts due to related parties	3,786,067	11,181,000	(9,847,171)
Capital contributed by shareholders	—	—	19,500,000
NET CASH FROM FINANCING ACTIVITIES	3,786,067	11,181,000	9,652,829
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	237,700	(97,721)	(128,619)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	—	237,700	139,979
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	237,700	139,979	11,360

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The address of the registered office is 雲南省紅河洲綠春縣城區風情園 Fengqing Yuen, Luchun County, Honghe Zhou, Yunnan. The principal place of business of Luchun Xingtai is 5/F Community Centre, 394 East Renmin Road, Kunming, Yunnan, the PRC. The mine of Luchun Xingtai is located in 雲南省紅河洲綠春縣大馬尖山 Damajianshan, Honghe Zhou, Luchun County, Yunnan, the PRC.

At 31 December 2005 and 2006, the ultimate holding company of Luchun Xingtai was 雲南銳聚源商貿有限公司 Yunnan Rui Juyuan Trading Co., Ltd* and 雲南貿盛緣工貿有限公司 Yunnan Maosheng Yuan Industry and Trading Co., Ltd.* ("MSY") respectively. Since 6 December 2007, Smart Year, a company incorporated in the British Virgin Islands with limited liability, has become the ultimate holding company and parent of Luchun Xingtai.

Luchun Xingtai is principally engaged in the exploration, processing and sale of copper ore concentrate in the PRC.

The Financial Information is presented in Renminbi, which is the same as the functional currency of Luchun Xingtai.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The Financial Information has been prepared on a going concern basis notwithstanding the fact that Luchun Xingtai had net current liabilities of RMB5,465,961, RMB8,621,197 and RMB21,033,610 at 31 December 2005, 2006 and 2007 respectively. In the event of unsucessful completion of the acquisition of Smart Year by Golden Genie Limited, a wholly owned subsidiary of the Company. Smart Year and MSY, the other shareholder of the Company, have agreed to provide adequate funds to enable Luchun Xingtai to meet in full its financial obligations as they fall due for the foreseeable future.

In the event of the successful completion of the acquisition of Smart Year by Golden Genie Limited, the Company will provide the financial support to Luchun Xingtai to enable it to meet its financial obligations as they fall due for the foreseeable future.

3. 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)") and Interpretations (herein collectively referred to as "New HKFRSs"), which are effective for the Company's financial year beginning on 1 January 2007. For the purpose of preparing and presenting the Financial Information, Luchun Xingtai has adopted all these New HKFRSs throughout the Relevant Period.

* *The English name is for identification purpose only.*

Luchun Xingtai has not early applied these new, revised or amended standards and interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and separate financial statements[2]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[1]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[1]
HKFRS 3 (Revised)	Business combinations[2]
HKFRS 8	Operating segments[1]
HK(IFRIC) — Int 11	HKFRS 2: Group and treasury share transactions[3]
HK(IFRIC) — Int 12	Service concession arrangements[4]
HK(IFRIC) — Int 13	Customer loyalty programmes[5]
HK(IFRIC) — Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 July 2009.
3 Effective for annual periods beginning on or after 1 March 2007.
4 Effective for annual periods beginning on or after 1 January 2008.
5 Effective for annual periods beginning on or after 1 July 2008.

The management of Luchun Xingtai anticipates that the application of these new, revised or amended standards and interpretations will have no material impact on the Financial Information of Luchun Xingtai.

4. SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of sales related tax.

Sales of goods are recognised when goods are delivered and title has passed.

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.

Commission income is recognised when the service is provided.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 income statement in the year in which the item is derecognised.

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 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.

Retirement benefits costs

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

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 income statements 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. Luchun Xingtai'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 amounts of assets and liabilities in the balance sheets 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 differences arise from the initial recognition of 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 period 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 credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment of assets

At each balance sheet date, Luchun Xingtai reviews the carrying amounts of its assets to determining whether there is 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.

Mining right

Mining right is stated at cost less accumulated amortisation and accumulated impairment losses. The mining right is amortised over its estimated useful life.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when Luchun Xingtai 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

Luchun Xingtai's financial assets are mainly classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis.

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 other receivables, amounts due from related parties and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. The accounting policy on impairment loss of financial assets is set out below.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been impacted.

Objective evidence of impairment includes:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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.

The carrying amount is reduced by the impairment loss directly for all loans and receivables with the exception of other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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 Luchun Xingtai 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 Luchun Xingtai after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables and amounts due to related parties, are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by Luchun Xingtai 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 Luchun Xingtai 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 or 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 or payable is recognised in profit or loss.

Provisions

Provisions are recognised when Luchun Xingtai has a present obligation as a result of a past event, and it is probable that Luchun Xingtai will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying Luchun Xingtai's accounting policies, the directors of Luchun Xingtai have made the following judgement that has a significant effect on the amounts recognised in the Financial Information:

Useful life of mining right

The directors of Luchun Xingtai determine the estimated useful life of its mining right based on the proven and probable mineral reserves. However, the mining right is granted for a term of 5 years expiring in 2012. The directors of Luchun Xingtai are of the opinion that Luchun Xingtai will be able to continuously renew the mining right at minimal charges from the relevant government authorities.

6. CAPITAL RISK MANAGEMENT

Luchun Xingtai manages its capital to ensure it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Luchun Xingtai's overall strategy remains unchanged during the Relevant Period.

The capital structure of Luchun Xingtai consists of debt, details of which are disclosed in note 17 and equity attributable to equity holders of Luchun Xingtai comprising paid up capital and accumulated losses.

The directors of Luchun Xingtai review the capital structure on a regular basis. As part of this review, the directors of Luchun Xingtai consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, Luchun Xingtai will balance its overall capital structure through the payment of dividends, increase in registered capital and the issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

Luchun Xingtai's major financial instruments include other receivables, amounts due from/to related parties, bank balances and cash and trade and other payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of Luchun Xingtai manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Luchun Xingtai's principal financial assets are other receivables, amounts due from related parties as well as bank balances and cash, which represent Luchun Xingtai's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of Luchun Xingtai closely follows up the outstanding amounts and reviews the recoverable amount of each individual debt at each balance sheet date to ensure adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of Luchun Xingtai consider that the credit risk of Luchun Xingtai is significantly reduced.

Luchun Xingtai had significant outstanding amounts due from related parties as at 31 December 2005 and 2006 which exposed Luchun Xingtai to the concentration of credit risk on individual related party. Other than that, Luchun Xingtai had no other significant concentration of credit risk, with exposure spread over a number of counterparties.

The amounts due from related parties have limited credit risk, as the directors of Luchun Xingtai consider that those companies are financially sound and had a good repayment history. Hence, Luchun Xingtai does not expect any credit risk on the amount outstanding.

The credit risk for bank balances is considered minimal as such amounts are placed with banks with good credit standing.

Liquidity risk

Luchun Xingtai had net current liabilities of approximately RMB5,466,000, RMB8,621,000 and RMB21,034,000 at 31 December 2005, 2006 and 2007 respectively and net liabilities of approximately RMB2,083,000 and RMB4,348,000 at 31 December 2005 and 2006 respectively. Luchun Xingtai is exposed to liquidity risk of being unable to raise sufficient funds to meet its financial obligations when they fall due.

To manage the liquidity risk, Luchun Xingtai has obtained financial supports from the Company, MSY and Smart Year (as described in note 2 to the Financial Information) to meet in full its financial obligations as and when they arise and to continue its operations in the foreseeable future.

The following table details Luchun Xingtai's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Luchun Xingtai can be required to pay. The table includes both interest and principal cash flows.

Liquidity table

	Less than 6 months *RMB*	**6 months to 1 year** *RMB*	**Total undiscounted cash flows** *RMB*	**Total carrying amount at balance sheet date** *RMB*
As at 31 December 2007				
Trade and other payables	327,448	17,899,524	18,226,972	18,226,972
Amounts due to related companies	5,119,896	—	5,119,896	5,119,896
	5,447,344	17,899,524	23,346,868	23,346,868
As at 31 December 2006				
Trade and other payables	359,952	2,389,105	2,749,057	2,749,057
Amounts due to related parties	14,967,067	—	14,967,067	14,967,067
	15,327,019	2,389,105	17,716,124	17,716,124
As at 31 December 2005				
Trade and other payables	36,328	4,900,450	4,936,778	4,936,778
Amounts due to related parties	3,786,067	—	3,786,067	3,786,067
	3,822,395	4,900,450	8,722,845	8,722,845

Commodity price risk

Luchun Xingtai is exposed to fluctuations of commodity price of copper concentrate which is the major commodity produced and sold by Luchun Xingtai. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The directors of Luchun Xingtai consider that Luchun Xingtai's interest rate risk exposure is insignificant as Luchun Xingtai had no interest bearing borrowing and the amount of interest bearing bank balances was insignificant during the Relevant Period.

Currency risk

The directors of Luchun Xingtai consider that Luchun Xingtai had no currency risk exposure as Luchun Xingtai had no foreign currency transaction during the Relevant Period.

b. Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rates.

The directors of Luchun Xingtai consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their corresponding fair values.

c. Categories of financial instruments

		As at 31 December	
	2005	**2006**	**2007**
	RMB	*RMB*	*RMB*
Financial assets			
— Loans and receivables (including cash and cash equivalents)	942,980	2,143,479	46,945
Financial liabilities			
— Amortised cost	8,722,845	17,716,124	23,346,848

8. SEGMENT INFORMATION

a. Business segment

Luchun Xingtai's operation is regarded as a single business segment, being engaged in the exploration, processing and sales of copper ore concentrate.

b. Geographical segment

As all of the revenue and operating results of Luchun Xingtai for the Relevant Period are derived in the PRC, an analysis of the revenue and operating results of Luchun Xingtai by geographic location is not presented.

No geographic segment information of Luchun Xingtai's assets and liabilities is shown as Luchun Xingtai's assets and liabilities are located in the PRC.

9. REVENUE

Revenue represents the amounts received and receivable for sale of copper ore concentrate during the Relevant Period, net of sales related tax.

10. INCOME TAX EXPENSE

Luchun Xingtai is subject to PRC enterprise income tax at the rate of 33% on assessable profits during the Relevant Period.

The income tax expense for the year can be reconciled to the loss before tax per the income statements as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB	*RMB*	*RMB*
Loss before tax	(2,582,562)	(2,265,820)	(10,328,506)
Tax at the PRC enterprise income tax rate of 33%	(852,245)	(747,721)	(3,408,407)
Tax effect of expenses not deductible for tax purpose	801,159	702,115	2,848,257
Tax effect of tax loss not recognised	51,086	45,606	560,150
Income tax expense	—	—	—

On 16 March 2007, the PRC government promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued the Implementation Regulations of the New Law. The New Law and the Implementation Regulations will change the tax rate from 33% to 25% for Luchun Xingtai from 1 January 2008.

Luchun Xingtai had estimated unused tax losses of approximately RMB0.2 million, RMB0.3 million and RMB2.0 million at 31 December 2005, 2006 and 2007 respectively. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward for a period of five years from their respective year of originating.

11. LOSS FOR THE YEAR

	As at 31 December		
	2005	**2006**	**2007**
	RMB	*RMB*	*RMB*
Loss for the year has been arrived at after charging			
Directors' emoluments *(note 12)*	—	—	—
Salaries, allowances and other benefits	717,895	1,300,433	3,537,229
Contributions to retirement benefit scheme	143,579	277,598	670,251
Total staff costs	861,474	1,616,770	4,197,480
Auditor's remuneration	—	—	—
Amortisation of mining right included in cost of sales	—	—	3,000
Depreciation of property, plant and equipment	52,247	159,462	528,373
Loss on disposal of property, plant and equipment	—	—	574,470
Allowances for bad and doubtful debts	374,810	61,572	14,113
Cost of inventories recognised as an expense	—	2,628,548	13,587,186
Impairment loss of inventories included in cost of sales	—	48,686	135,010
Rental expenses in respect of rented premises	—	—	18,957
and after crediting:			
Bank interest income	706	1,438	18,882

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' and supervisor's emoluments

During the Relevant Period, no emolument was paid or payable to the directors of Luchun Xingtai.

The emoluments of the five highest paid individuals, which are individually below HK$1,000,000, are as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB	*RMB*	*RMB*
Salaries, allowances and other benefits	102,110	115,830	64,000
Contributions to retirement benefit scheme	20,422	23,166	12,800
	122,532	138,996	76,800

During the Relevant Period, no emolument was paid by Luchun Xingtai to the directors and five highest paid individuals of Luchun Xingtai as an inducement to join or upon joining Luchun Xingtai or as a compensation for loss of office.

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures, plant, machinery and mining structure *RMB*	Motor vehicles *RMB*	Construction in progress *RMB*	Total *RMB*
COST				
At 1 January 2005	—	—	—	—
Additions	1,015,969	—	1,935,677	2,951,646
At 31 December 2005	1,015,969	—	1,935,677	2,951,646
Additions	250,240	—	326,662	576,902
Transfers	1,911,185	—	(1,911,185)	—
At 31 December 2006	3,177,394	—	351,154	3,528,548
Additions	3,670,967	408,850	18,663,598	22,743,415
Disposals	(296,000)	—	(334,124)	(630,124)
Transfers	5,123,120	—	(5,123,120)	—
At 31 December 2007	11,675,481	408,850	13,557,508	25,641,839
ACCUMULATED DEPRECIATION				
At 1 January 2005	—	—	—	—
Provided for the year	52,247	—	—	52,247
At 31 December 2005	52,247	—	—	52,247
Provided for the year	159,462	—	—	159,462
At 31 December 2006	211,709	—	—	211,709
Provided for the year	519,951	8,422	—	528,373
Eliminated on disposals	(55,654)	—	—	(55,654)
At 31 December 2007	676,006	8,422	—	684,428
CARRYING VALUES				
At 31 December 2005	963,722	—	1,935,677	2,899,399
At 31 December 2006	2,965,685	—	351,154	3,316,839
At 31 December 2007	10,999,475	400,428	13,557,508	24,957,411

The above property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis after taking into account their estimated residual values at the following rates per annum:

Furniture, fixtures, plant, machinery and mining structure	Units of production or 8 years, whichever is shorter.
Motor vehicles	8 years

At 31 December 2007, Luchun Xingtai pledged furniture, fixtures, plant and machinery and motor vehicles having a net book value of approximately RMB10,984,382 (2006 and 2005: nil) to a bank to secure general banking facilities granted to related companies, namely, MSY and RJY of which the relationship is disclosed in note 17(b).

14. MINING RIGHT

	RMB
COST	
At 1 January 2005, 31 December 2005 and 2006	—
Additions	1,196,000
At 31 December 2007	1,196,000
AMORTISATION	
At 1 January 2005, 31 December 2005 and 2006	—
Charge for the year	3,000
At 31 December 2007	3,000
CARRYING VALUES	
At 31 December 2005 and 2006	—
At 31 December 2007	1,193,000

This represents the right to conduct mining activities in 雲南省紅河洲綠春縣大馬尖山 Damajianshan, Honghe Zhou, Luchun County, Yunnan.

The mine is located on land in the PRC (the "Land") to which Luchun Xingtai has no formal title. Luchun Xingtai is in the process of obtaining the land use right certificate.

Yunnan State Land Resources Bureau issued the mining right certificate to Luchun Xingtai in January 2005. The mining right certificate was renewed in 2007 for a period of five years to September 2012. Luchun Xingtai is in the process of obtaining a revised mining right certificate as Luchun Xingtai was transformed from a domestic limited liability company to a sino-foreign equity joint venture limited liability company.

Pursuant to the payment notice issued by Yunnan State Land Resources Bureau in July 2007, Luchun Xingtai is required to pay a fee of RMB1,196,000 for the exploration of the mine for the renewal period mentioned above. At 31 December 2007, Luchun Xingtai paid RMB800,000. Subsequent to the balance sheet date, Luchun Xingtai paid RMB200,000 to the Yunnan government. The remaining RMB196,000 remained unsettled at the date of this report.

At 31 December 2006, the mining right was pledged to a bank to secure a bank loan of RMB35 million granted to RJY. At 31 December 2006 and 2007, the mining right was pledged to a bank to secure total bank loans of RMB60 million granted to MSY and RJY.

15. INVENTORIES

	As at 31 December		
	2005	**2006**	**2007**
	RMB	*RMB*	*RMB*
Raw materials	2,011,237	2,233,355	625,486
Work in progress	13,587	248,996	668,130
Finished goods	130,145	4,077,259	29,499
	2,154,969	6,559,610	1,323,115

16. OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December		
	2005	**2006**	**2007**
	RMB	*RMB*	*RMB*
Other receivables	378,310	439,882	486,080
Less: Allowance for bad and doubtful debts	(374,810)	(436,382)	(450,495)
	3,500	3,500	35,585
Prepayments	158,935	391,838	1,342,650
	162,435	395,338	1,378,235

Movements in the allowance for bad and doubtful debts are as follows:

	2005	**2006**	**2007**
	RMB	*RMB*	*RMB*
Balance at beginning of the year	—	374,810	436,382
Impairment loss recognised	374,810	61,572	14,113
Balance at end of the year	374,810	436,382	450,495

Included in allowance for bad and doubtful debts are individually impaired other receivables which are considered as irrecoverable.

17. AMOUNTS DUE FROM/TO RELATED PARTIES

	As at 31 December,		
	2005	**2006**	**2007**
	RMB	*RMB*	*RMB*
Amounts due from:			
MSY *(note b)*	701,780	—	—
Zhang Rui *(note b)*	—	2,000,000	—
	701,780	2,000,000	—
Amounts due to:			
MSY *(note a)*	—	12,936,055	4,956,496
RJY *(note b)*	3,786,067	2,031,012	163,400
	3,786,067	14,967,067	5,119,896

Notes:

(a) MSY owned 80% equity interest in Luchun Xingtai during the Relevant Period from 1 February 2006 to 5 December 2007. On 6 December 2007, it disposed of 70% equity interest to Smart Year and held 10% equity interest in Luchun Xingtai thereafter. A director of Luchun Xingtai, Ms. Zhang Li, is also a director of and a beneficial owner of MSY.

(b) RJY owned 80% equity interest in Luchun Xingtai from 16 February 2005 to 31 January 2006. On 1 February 2006, RJY transferred all its entire equity interest in Luchun Xingtai to MSY. The owner of RJY, Ms. Zhang Rui, is the sister of Ms. Zhang Li. Accordingly, both MSY and RJY are considered as related parties of Luchun Xingtai throughout the Relevant Period.

(c) The balances with related parties are unsecured, non-interest bearing and repayable on demand.

18. BANK BALANCES AND CASH

The bank balances as at 31 December 2007, which are denominated in Renminbi, carry interest at an average prevailing market rates of 0.72% (31 December 2006: 0.72%; 31 December 2005: 0.72%) per annum.

19. TRADE AND OTHER PAYABLES

	As at 31 December,		
	2005	**2006**	**2007**
	RMB	*RMB*	*RMB*
Trade payables	71,328	394,952	400,937
Other payables and accruals	4,865,450	2,354,105	18,225,487
Total trade and other payables	4,936,778	2,749,057	18,626,424

The following is an aged analysis of trade payables at the balance sheet dates:

	As at 31 December		
	2005	**2006**	**2007**
	RMB	*RMB*	*RMB*
Up to 30 days	36,328	359,952	141,848
31 — 90 days	—	—	185,600
More than 90 days	35,000	35,000	73,489
	71,328	394,952	400,937

20. PROVISION FOR RESTORATION COST

	RMB
Provision for the year and balance at 31 December 2007	415,521

In accordance with relevant PRC rules and regulations, Luchun Xingtai is obliged to accrue the cost for land restoration for the existing mine starting from 2007.

The provision for restoration cost represents the directors of Luchun Xingtai's estimation of its liability for land restoration.

21. PAID-UP CAPITAL

	RMB
At 1 January 2005, 31 December 2005 and 2006	500,000
Increase in capital	19,500,000
At 31 December 2007	20,000,000

22. OPERATING LEASE COMMITMENTS

At respective balance sheet dates, Luchun Xingtai had commitments for future minimum lease payments in respect of premises under non-cancellable operating lease which fall due as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB	*RMB*	*RMB*
Within one year	—	—	21,785
In the second to fifth year inclusive	—	—	8,000
After the fifth year	—	—	8,583
	—	—	38,368

Leases are negotiated and rentals are fixed for a period ranging from one to ten years.

23. COMMITMENTS

(a) Capital commitment

	As at 31 December		
	2005	**2006**	**2007**
	RMB	*RMB*	*RMB*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the Financial Information	—	24,274,366	13,221,023

(b) Other commitment

Pursuant to the relevant regulations in Yunnan, mining operator is required to take measure to restore and clean up the site after the exploration of the mine. In order to ensure that the mining operator will fulfill the obligation of rehabilitation, the mining operator in Yunnan is required to pay guarantee deposits to the Yunnan government. Such guarantee deposits will be refunded to the mining operator upon the completion of rehabilitation. If the mining operator is unable to fulfill its rehabilitation obligations, Yunnan government will appoint a third party to perform the rehabilitation. The costs incurred will be offset against the guarantee deposits. If the costs exceed the guarantee deposits received, the mining operator is obliged to pay the excess amount. Pursuant to the notice issued by Yunnan State Land and Resources bureau, Luchun Xingtai is required to pay total guarantee deposits of approximately RMB2,199,600 to the Yunnan government for the period from January 2005 to January 2007 and pursuant to relevant regulation, Luchun Xingtai is also required to pay further guarantee deposits of approximately RMB10,998,000 to the Yunnan government for the period from September 2007 to September 2012. Such amounts have not been paid by Luchun Xingtai at 31 December 2007.

24. RETIREMENT BENEFIT PLAN

The employees of Luchun Xingtai are members of the state-managed retirement benefit scheme operated by the PRC government. Luchun Xingtai is required to contribute a certain percentage of its payroll to the retirement benefit scheme to fund the benefits. The only obligation of Luchun Xingtai with respect to the retirement benefit scheme is to make the required contributions under the scheme.

25. RELATED PARTY TRANSACTIONS

(a) During the Relevant Period, Luchun Xingtai entered into the following significant transactions with related parties:

	Name of	Year ended 31 December		
Nature of transactions	**related parties**	**2005**	**2006**	**2007**
		RMB	*RMB*	*RMB*
Sales	MSY	—	846,865	9,158,766
	RJY	—	1,115,273	—
Commission income	RJY	—	—	670,162
Purchase of property, plant	MSY	296,000	227,000	209,600
and equipment	RJY	383,660	—	152,800

(b) At 31 December 2006 and 2007, Luchun Xingtai pledged its mining right and at 31 December 2007, Luchun Xingtai pledged certain of its property, plant and equipment to a bank to secure the bank loans granted to MSY and RJY. Luchun Xingtai did not charge MSY and RJY for the assets pledged to a bank.

(c) During the Relevant Period, MSY and RJY provided management services and administrative services to Luchun Xingtai. They did not charge Luchun Xingtai for the services provided.

(d) During the Relevant Period, MSY provided certain property, plant and equipment to Luchun Xingtai for its production use. MSY did not charge Luchun Xingtai for the assets provided.

(e) Compensation of key management personnel.

Key management personnel of Luchun Xingtai are the directors whose remunerations for the Relevant Period have been disclosed in note 12.

26. SUBSEQUENT EVENTS

(a) Subsequent to 31 December 2007, MSY transferred certain property, plant and equipment to Luchun Xingtai at nil consideration.

(b) Pursuant to the letter of indemnity provided by MSY dated 5 June 2008, MSY agreed to indemnify Luchun Xingtai against any loss or liability suffered by Luchun Xingtai arising out of or in connection with, amongst others, in respect of the assets as mentioned in (a) above to be transferred to Luchun Xingtai and the social insurance and penalties in relation to Luchun Xingtai during the Relevant Period imposed by the PRC governmental, official or regulatory authorities without any limitation in time.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Luchun Xingtai have been prepared in respect of any period subsequent to 31 December 2007.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following are the unaudited pro forma financial information on the Enlarged Group and the text of a comfort letter thereon received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purpose of inclusion in this circular.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON 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 of the entire equity interest in Smart Year and issuance by the Company of Consideration Shares and Convertible Note had been completed ("Completion") on 1 January 2007 and is based on the consolidated income statement of the Smart Year Group for the period from 2 April 2007 (date of incorporation) to 31 December 2007 as extracted from the accountants' report of the Smart Year Group as set out in Appendix II to this circular, and the audited consolidated income statement of the Group for the year ended 31 December 2007 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 by the directors of the Company to provide unaudited pro forma financial information on the Enlarged Group as a result of the Completion. As it is prepared for illustrative purpose only, it does not purport to give a true picture of the results of the Enlarged Group for the year ended 31 December 2007 or any future financial periods.

Unaudited pro forma income statement for the year ended 31 December 2007

	The Group For the year ended 31 December 2007	Smart Year Group For the period from 2 April 2007 (date of incorporation) to 31 December 2007		Total	Proforma adjustments		Enlarged Group
			HK$ equivalent				
	HK$'000	*RMB'000*	*'000*	*HK$'000*	*HK$'000*		*HK$'000*
			(Note1)		*(Note2)*	*(Note3)*	
Revenue	25,380	2,621	2,912	28,292			28,292
Business tax	(340)	—	—	(340)			(340)
Cost of sales	(22,624)	(3,205)	(3,561)	(26,185)	(636)		(26,821)
Gross profit (loss)	2,416	(584)	(649)	1,767			1,131
Other income	719	16	18	737			737
Administrative expenses	(6,746)	(2,895)	(3,216)	(9,962)			(9,962)
Finance costs	(1,718)	—	—	(1,718)		(32,720)	(34,438)
Loss before tax	(5,329)	(3,463)	(3,847)	(9,176)			(42,532)
Income tax	(700)	—	—	(700)			(700)
Loss for the year/ period	(6,029)	(3,463)	(3,847)	(9,876)			(43,232)
Attributable to:							
Equity holders of the Company	(5,243)	(3,121)	(3,467)	(8,710)			(42,066)
Minority Interests	(786)	(342)	(380)	(1,166)			(1,166)
	(6,029)	(3,463)	(3,847)	(9,876)			(43,232)

Notes:

1. The balances are translated based on the exchange rate of HK$1.00 to RMB0.90, which represents the exchange rate as stated in the Circular.

2. The adjustment represents the additional amortisation charges on the mining right, using the units of production method on the basis of proven and probable mineral reserves, as a result of adjusting the carrying amount of the mining right to its fair value.

3. The effective interest expenses of approximately HK$32,720,000 were arisen from the debt component of the Convertible Note of HK$213,440,000. For the purpose of this unaudited pro forma financial information of the Enlarged Group, the directors of the Company engaged a professional valuer, who is an independent third party of the Company, to estimate the fair value of the Convertible Note at 30 January 2008. The fair value of the debt component of the Convertible Note is determined based on the effective interest rate of 15.33% 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 are 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 the Completion had taken place on 31 December 2007.

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

The unaudited pro forma balance sheet of the Enlarged Group is prepared by the directors of the Company to provide unaudited pro forma financial information on the Enlarged Group as a result of the Completion. As it is prepared for illustrative purpose only, it does not purport to give a true picture of the financial position of the Enlarged Group as at 31 December 2007 or at any future date.

Unaudited pro forma balance sheet as at 31 December 2007

	The Group as at 31 December 2007	**Smart Year Group as at 31 December 2007**		**Total**	**Proforma adjustments**		**Enlarged Group**
			HK$ equivalent				
	HK$'000	*RMB'000*	*'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note 1)		*(Note 2a)*	*(Note 2b)*	
Non-current assets							
Goodwill	91,872	—	—	91,872			91,872
Intangible asset	100,977	—	—	100,977			100,977
Property, plant and equipment	51,148	24,958	27,731	78,879			78,879
Toll road operation rights	82,203	—	—	82,203			82,203
Amounts due from minority shareholders of a subsidiary	52,674	—	—	52,674			52,674
Deferred tax assets	5,754	—	—	5,754			5,754
Mining right	—	11,768	13,076	13,076		997,226	1,010,302
Deposits for purchase of property, plant and equipment	—	122	136	136			136
	384,628	36,848	40,943	425,571			1,422,797
Current assets							
Inventories	—	1,323	1,470	1,470			1,470
Trade receivables	13,455	—	—	13,455			13,455
Amount due from a shareholder	—	46	51	51			51
Other receivables, deposits and prepayments	4,265	1,378	1,531	5,796			5,796
Bank balances and cash	40,027	17,720	19,689	59,716		(40,027)	19,689
	57,747	20,467	22,741	80,488			40,461
Current liabilities							
Trade payables	(6,159)	(401)	(446)	(6,605)			(6,605)
Other payables and accrued charges	(8,576)	(22,226)	(24,696)	(33,272)		(89,138)	(122,410)
Amount due to minority interest of subsidiary	—	(18,956)	(21,062)	(21,062)			(21,062)
Amount due to a shareholder	—	(197)	(219)	(219)			(219)
Amount due to a related company	—	(163)	(181)	(181)			(181)
Bank borrowings due within one year	(26,183)	—	—	(26,183)			(26,183)
Obligations under finance leases	(1,507)	—	—	(1,507)			(1,507)
Tax liabilities	(74)	—	—	(74)			(74)
	(42,499)	(41,943)	(46,604)	(89,103)			(178,241)
Net current assets (liabilities)	15,248	(21,476)	(23,863)	(8,615)			(137,780)
Total assets less current liabilities	399,876	15,372	17,080	416,956			1,285,017
Capital and reserves							
Share capital	(78,474)	(73)	(81)	(78,555)	81	(31,567)	(110,041)
Reserves	(129,835)	(14,401)	(16,001)	(145,836)	16,001	(639,136)	(768,971)
Equity attributable to equity holders of the Company	(208,309)	(14,474)	(16,082)	(224,391)			(879,012)
Minority interests	(77,878)	(482)	(536)	(78,414)			(78,414)
	(286,187)	(14,956)	(16,618)	(302,805)			(957,426)
Non-current liabilities							
Bank borrowings due after one year	(1,647)	—	—	(1,647)			(1,647)
Obligations under finance leases	(3,719)	—	—	(3,719)			(3,719)
Convertible notes	(84,058)	—	—	(84,058)		(213,440)	(297,498)
Provision for restoration cost	—	(416)	(462)	(462)			(462)
Deferred tax liabilities	(24,265)	—	—	(24,265)			(24,265)
	(113,689)	(416)	(462)	(114,151)			(327,591)
	(399,876)	(15,372)	17,080	(416,956)			(1,285,017)

Notes:

1. The balances are translated based on the exchange rate of HK$1.00 to RMB0.90, which represents the exchange rate as stated in the Circular.

2. (a) The adjustment represents the elimination of share capital and pre-acquisition reserves of Smart Year Group of HK$81,000 and HK$16,001,000 respectively.

   (b) The directors consider that the acquisition of the Smart Year Group is an asset acquisition. For the purpose of this unaudited pro forma financial information, the directors estimate the fair value of the mining right at HK$1,000,937,000 based on the estimated reserves and the expected life of the mining right. In addition, the directors are of the opinion that the Smart Year Group will be able to continuously renew the mining right at minimal charges from the relevant governmental authorities at end of the current term of mining right until the copper ore reserves have been fully extracted. The carrying amounts of other assets acquired and liabilities are assumed to approximate their fair values and the carrying amount of such net assets is HK$3,006,000. The fair values of the mining right and other net assets will be formally assessed at the Completion Date.

   The directors estimate that the expenditure in relation to the acquisition (including legal and professional fees) approximates HK$9,365,000. The acquisition of Smart Year Group is to be satisfied by:

   (i) deposit of HK$60,000,000 payable within two months after the passing of the resolution by shareholders of the Company in general meeting approving the Acquisition and the remaining cash consideration of HK$59,800,000 payable on the Completion Date. For the purpose of this unaudited pro forma financial information, the available bank balances and cash totaling HK$30,662,000 (after deducting expenditure in relation to the acquisition) was utilized in the settlement of the cash payment while the remaining amount of HK$89,138,000 was included in current liabilities.

   (ii) issuance of Convertible Note of the Company with a principal amount of HK$435,500,000 and issuance of 315,666,000 Consideration Shares of the Company. The Convertible Note has a maturity period of 5 years and will not bear any interest. The holder of Convertible Note shall have the right to convert all or part of the outstanding principal amount into the Company's shares on or before the maturity date. The Company will redeem all Convertible Note at par at the maturity date. The directors of the Company, based on their preliminary assessment, consider that the functional currency of the Company is Hong Kong dollars and have splited the Convertible Notes into liability and equity components in accordance with Hong Kong Accounting Standard 32 "Financial Instruments — Presentation. For the purpose of this unaudited pro forma financial information, the directors determine that the fair value of the Convertible Note is HK$622,140,000, which consists of the debt component with fair value of approximately HK$213,440,000 estimated based on discounted cashflow model and equity component of approximately HK$408,700,000 estimated based on binomial pricing model using market prices and data as at 30 January 2008 as inputs. The share capital will increase by HK$31,567,000 as a result of the issuance of Consideration Shares. The aggregate of the fair value of the mining right and the other net assets acquired less the aggregate of the cash consideration per Note 2(b)(i) above, fair value of the debt component of the Convertible Note and the nominal value of the Consideration Shares of HK$639,136,000 is included in reserves. The fair values of the Convertible Note and Consideration Shares will be formally assessed at the Completion Date.

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 the 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 been taken place on 1 January 2007 and is based on the consolidated cash flow statement of the Smart Year Group for the period from 2 April 2007 (date of incorporation) to 31 December 2007 as extracted from the accountants' report of the Smart Year Group as set out in Appendix II to this Circular, and the audited consolidated cash flow statement of the Group for the year ended 31 December 2007 as set out in Appendix I to this 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 by the directors of the Company to provide unaudited pro forma financial information on the Enlarged Group as a result of the Completion. As it is prepared for illustrative purpose only, it does not purport to give a true picture of the cash flows of the Enlarged Group for the year ended 31 December 2007 or for any future financial periods.

Unaudited pro forma cash flow statement for the year ended 31 December 2007

	The Group For the year ended 31 December 2007	Smart Year Group For the period from 2 April 2007 (date of incorporation) to 31 December 2007		Total	Proforma adjustments			Enlarged Group
			HK$ equivalent					
	HK$'000	*RMB'000*	*'000 (Note 1)*	*HK$'000*	*HK$'000 (Note 2)*	*HK$'000 (Note 3)*	*HK$'000 (Note 4)*	*HK$'000*
OPERATING ACTIVITIES								
Loss before taxation	(5,329)	(3,463)	(3,847)	(9,176)		(636)	(32,720)	(42,532)
Adjustments for:			—					
Amortisation of toll road operation rights	5,057	—	—	5,057				5,057
Amortisation of mining right	—	1	1	1		636		637
Amortisation of intangible asset	1,975	—	—	1,975				1,975
Depreciation of property, plant and equipment	1,949	30	33	1,982				1,982
Interest expenses	1,718	—	—	1,718			32,720	34,438
Interest income	(620)	(2)	(2)	(622)				(622)
(Gain) loss on disposal of property, plant and equipment	(36)	334	371	335				335
Allowance for bad and doubtful debts	104	1	1	105				105
Operating cash flows before movements in working capital	4,818	(3,099)	(3,443)	1,375				1,375
Increase in trade receivables	(3,220)	—	—	(3,220)				(3,220)
Decrease in other receivables, deposits and prepayments	(635)	9,314	10,348	9,713				9,713
Decrease in inventories	—	1,798	1,998	1,998				1,998
Increase (decrease) in trade and other payables	4,821	(6,869)	(7,632)	(2,811)				(2,811)
Decrease in amount due from a related party	—	3,820	4,244	4,244				4,244
Cash generated from operations	5,784	4,964	5,515	11,299				11,299
Income tax paid	(215)	—	—	(215)				(215)
Net cash generated from operating activities	5,569	4,964	5,515	11,084				11,084
INVESTING ACTIVITIES								
Interest received	327	2	2	329				329
Purchase of property, plant and equipment	(346)	(3,643)	(4,098)	(4,394)				(4,394)
Proceeds from disposal of property, plant and equipment	36	—	—	36				36
Acquisition of assets through purchase of a subsidiary	—	594	660	660	(129,165)			(128,505)
Acquisition of subsidiaries	(49,808)	—	—	(49,808)				(49,808)
Net cash used in investing activities	(49,791)	(3,047)	(3,386)	(53,177)				(182,342)
FINANCING ACTIVITIES								
Repayment to a director	(1,443)	—	—	(1,443)				(1,443)
Dividend paid to minority interests	(2,572)	—	—	(2,572)				(2,572)
Proceeds from issuance of ordinary shares	79,955	17,595	19,550	99,505				99,505
Decrease in amounts due to related parties	—	(6,748)	(7,497)	(7,497)				(7,497)
Increase in amount due to minority shareholder	—	4,956	5,507	5,507				5,507
Expenses on issuance of ordinary shares	(2,199)	—	—	(2,199)				(2,199)
Repayment of borrowings	(1,895)	—	—	(1,895)				(1,895)
Borrowing raised	3,152	—	—	3,152				3,152
Interest paid	(363)	—	—	(363)				(363)
Finance lease charges	(78)	—	—	(78)				(78)
Repayment of obligations under finance leases	(655)	—	—	(655)				(655)
Net cash generated from financing activities	73,902	15,803	17,560	91,462				91,462
NET INCREASE IN CASH AND CASH EQUIVALENTS	29,680	17,720	19,689	49,369				79,796
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,678	—	—	9,678				9,678
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	669	—	—	669				669
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY:	—	—	—	—				—
Bank balances and cash	40,027	17,720	19,689	59,716				(69,449)

Notes:

1. The balances are translated based on the exchange rate of HK$1.00 to RMB0.90, which represents the exchange rate as stated in the Circular.

2. The adjustment represents the cash payments for estimated expenditures and cash consideration for acquisition of Smart Year Group of HK$9,365,000 and HK$119,800,000 respectively.

3. The adjustment represents the additional amortisation charges on the mining right, using the units of production method on the basis of proven and probable mineral reserves as a result of adjusting the carrying amount of the mining right to its fair value.

4. The effective interest expenses of approximately HK$32,720,000 were arisen from the debt component of the Convertible Note of HK$213,440,000. For the purpose of this unaudited pro forma financial information of the Enlarged Group, the directors of the Company engaged a professional valuer, who is an independent third party of the Company, to estimate the fair value of the Convertible Note at 30 January 2008. The fair value of the debt component of the Convertible Note is determined based on an effective interest rate of 15.33% per annum. This adjustment will have continuing effect on the Enlarged Group in the subsequent financial years.

2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

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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"), Smart Year Investments Limited ("Smart Year") and its subsidiaries (the "Smart Year 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 acquisition of Smart Year might have affected the financial information presented, for inclusion in Appendix IV of the circular dated 30 June 2008 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages IV-1 to IV-8 to 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 Hong Kong Institute of Certified Public Accountants. 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 31 December 2007 or any future date; or

- the results and cash flows of the Enlarged Group for the year ended 31 December 2007 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
30 June 2008

3. INDEBTEDNESS STATEMENT

At the close of business on 30 April 2008, 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 secured bank borrowings of approximately HK$24,260,000, finance lease obligations of approximately HK$5,069,000 and the principal amount and the carrying amount of the debt component of the convertible notes of HK$78,000,000 and approximately HK$56,251,000 respectively.

The secured bank borrowings and the finance lease obligations of the Enlarged Group were secured by the motor vehicles with net book value of approximately HK$36,328,000 as at 30 April 2008. The secured bank borrowings of the Enlarged Group were guaranteed by Perryville Group Limited's former shareholder and related parties of its former shareholder.

As at 30 April 2008, the Enlarged Group has pledged the exploitation rights relating to the Mine, the Mining Licence and certain property, plant and equipment with net book value of approximately RMB22,297,000 (HK$24,774,000) to the bank to secure the repayment obligations of Yunnan Rui Juyang and Yunnan Maosheng Yuan of bank borrowings in the aggregate amount of RMB60,000,000.

As at 30 April 2008, the Enlarged Group had amounts due to related parties amounted to RMB16,062,000 (HK$17,847,000).

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have, at close of business on 30 April 2008, any bank borrowings, bank overdrafts, liabilities under acceptances or other similar indebtedness, debentures or other loan capital, mortgages, charges, finance lease, hire purchase commitments, guarantees or other material contingent liabilities outstanding.

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 30 April 2008.

4. WORKING CAPITAL

In determining the sufficiency of the working capital of the Enlarged Group, the Directors have made the assumption that the Company will raise sufficient funds (including but not limited to equity financing such as placement of new shares) to finance its cash payment obligations under the S&P Agreement and the Supplemental Deed and the operation of the Enlarged Group (including but not limited to its capital expenditure).

The Directors are of the opinion that after taking account of the internal resources, available bank borrowing facilities and based on the assumption set out in the preceding paragraph, the Enlarged Group, following the Completion will have sufficient working capital, in the absence of unforeseen circumstances, for its present requirements, that is for at least the next 12 months from the date of this circular.

The following discussion and analysis of the Group's and the Target Group's financial condition and results of operations should be read in conjunction with the Group's and the Target Group's consolidated financial statements and the related notes included in Appendices I, II and III to this circular.

1. THE GROUP

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2007

The Group recorded total consolidated revenue for the year ended 31 December 2007 of HK$25.4 million from its toll road operations and limousine and airport shuttle rental services. This represents a significant increase of 67% compared to last year's total consolidated revenue of HK$15.2 million.

Toll road operations

During the year 2007, the gross toll road receipts of the Group amounted to approximately HK$6.4 million, representing a decrease of approximately 14%, compared to HK$7.4 million reported last year, not including, the balance of HK$7.8 million, being compensation income from Hangzhou City government (the "Government"). The toll road operation rights is owned and operated by Hangzhou Huanan Engineering Development Co. Ltd (杭州華南工程開發有限公司) ("HHED"). Since 2004, an agreement was entered into between HHED and the Government, granting HHED receipt of daily compensation of RMB50,000 from the Government for the loss of toll receipts as a result of the Government's intra city toll free collection policy, exempting all Hangzhou locally-registered vehicles from toll payment (the "toll free collection policy") . From 2006 onward, the Government has yet to renew the agreement with HHED to agree on the compensation. No such compensation income was therefore recognised in this year's results. The Group has pursued legal action against the Government to claim for the compensation. Since 2006, apart from the compensation income of HK$7.8 million paid by the Government in 2006, no further compensation income has been received or recognised by the Group.

The reduction in both revenue and profitability of the toll road operations is mainly attributable to the competition of emerging new roads and diversion of non-Hangzhou registered automobiles to adjacent alternate roads, and reduced toll fare in the light of direct competition. Yearly traffic volume of non-locally registered vehicles saw a reduction of approximately 19%, whilst traffic volume for the locally-registered vehicles increased by approximately 7% from previous year.

The non-receipt of the compensation income from the Government has had a direct impact on the operating performance of the toll road operation, leading to a loss of approximately HK$2.8 million compared to that of a profit of HK$6.9 million as achieved last year for the segment.

A civil petition has been submitted to the PRC court against the Government seeking judgement on the amount of government compensation. As of the Latest Practicle Date, outcome of the civil petition is still pending and no agreement has yet been reached with the Government.

Joint Venture in Hangzhou

Hangzhou Toll Road

Average daily toll traffic volume in 2007 was approximately 7,019 vehicles (2006: 6,400 vehicles), representing a 10% increase to 2006. Weighted average toll fare per vehicle for non-registered vehicles in 2007 was approximately RMB12.85 (2006: RMB14.75), representing a 13% decrease over 2006.

Joint Ventures in Shanxi

Shanxi-Xiangyi Toll Road and Bridge

Average daily toll traffic volume in 2007 was approximately 3,746 vehicles (2006: 3,700 vehicles), representing a 1% increase to 2006. The weighted average toll fare per vehicle in 2007 was approximately RMB12.68 (2006: RMB13.39), representing a 5% decrease as compared to 2006.

Shanxi-Linhong Toll Road and Bridge

Average daily toll traffic volume in 2007 was approximately 585 vehicles (2006: 9,800 vehicles), representing a 94% decrease to 2006. The weighted average toll fare per vehicle in 2007 was approximately RMB15.41 (2006: RMB5.91), representing a 161% increase over 2006.

Provision of limousine and airport shuttle transportation services

During the year, the Group has successfully completed the acquisition of Perryville Group Limited and its subsidiaries (collectively the "Perryville Group") in October 2007. The principal operation of Perryville Group is provision of limousine and airport shuttle transportation services and Perryville Group is a well established and leading operator in the market. Since the completion of acquisition, Perryville Group has contributed approximately HK$18.9 million to the Group's overall revenue, and a profit before amortisation of approximately HK$1.2 million since the date of acquisition to the end of year.

The management of the Group believes that, the acquisition of the transportation hire operation of the Perryville Group provides a platform to diversify into business and industry with more lucrative returns, reducing its existing business and cash flow risks exposure, and in the long term, offers better financial performance to the Group and enhancement to Shareholders' value.

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 (2005: HK$29,423,000), representing a decrease of 48% as compared with the year ended 31 December 2005. The profit attributable to equity holders of the Company was HK$1,000,000 (2005: HK$5,835,000), representing a decrease of 83% as compared with the year ended 31 December 2005. 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 Government 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 during the year ended 31 December 2006.

The Group and the Government have not yet finalised the renewal agreement for the year 2006 as agreement on the amount of compensation under the toll free collection policy 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 Government for judgement in respect of the compensation. Notwithstanding the civil proceeding, an aggregate amount of HK$7.8 million have been received by the Group from the 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

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

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

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.

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 (2004: HK$30,109,000), representing a slight decrease of 2% as compared with the year ended 31 December 2004. The profit attributable to equity holders of the Company was HK$5,835,000 (2004: HK$5,673,000), representing an increase of 3% as compared with 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 toll free collection policy launched by the 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 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 Government for continuously granting the daily compensation under the toll free collection policy for the year 2005 and that the government compensation in aggregate of HK$17,347,000 was granted by the Government to the Group.

Though traffic volume of Hangzhou registered automobiles increased by 26% as compared with 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 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

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

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

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.

LIQUIDITY AND FINANCIAL RESOURCES

For the three years ended 31 December 2005, 2006 and 2007, the Group recorded net cash inflow from its operations of approximately HK$16,591,000, HK$9,061,000 and HK$5,569,000 respectively.

As at 31 December 2005, 2006 and 2007, the amounts of the Group's total assets were approximately HK$156,399,000, HK$144,708,000 and HK$442,375,000 respectively.

As at 31 December 2005, 2006 and 2007, the Group's bank balances and cash were in the sum of approximately HK$17,865,000, HK$9,678,000 and HK$40,027,000 respectively, which represented approximately 31.5%, 97.6% and 69.3% of the total current assets of the Group respectively. As at 31 December 2005, 2006 and 2007, the Group's bank balances and cash were held in Hong Kong dollars and RMB.

As at 31 December 2005, 2006 and 2007, the amounts of the Group's total liabilities were approximately HK$13,785,000, HK$3,297,000 and HK$156,188,000 respectively.

As at 31 December 2005 and 2006, the Group did not have any bank and other borrowings. As at 31 December 2007, the Group had bank and other borrowings of HK$33.1 million, which were all denominated in Hong Kong dollars. Except for the finance lease obligations of HK$5.2 million, all borrowings of the Group bear interest at floating interest rates.

As at 31 December 2005, 2006 and 2007, the Group had current ratios of 20.2 times, 5.0 times and 1.4 times respectively.

The gearing ratios (total liabilities/total assets) of the Group as at 31 December 2005, 2006 and 2007 were approximately 8.8%, 2.3% and 35.3% respectively.

For the year ended 31 December 2005, 2006 and 2007, the capital expenditures for the Group amounted to HK$14,000, HK$2,000 and HK$745,000 respectively.

CAPITAL STRUCTURE

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

	As at 31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Share capital	59,484	59,484	78,474
Reserves	(6,169)	691	129,835
	53,315	60,175	208,309

On 15 May 2007, pursuant to a placing and subscription agreement executed by the Company, a total of 118,900,000 ordinary shares were issued at an issue price of HK$0.35 per share, raising net proceeds of approximately HK$40.3 million.

On 16 October 2007, pursuant to a placing and subscription agreement executed by the Company, a total of 71,000,000 ordinary shares were issued at an issue price of HK$0.54 per share, raising net proceeds of approximately HK$37.4 million.

On 22 October 2007, the Company issued a convertible note in the principal amount of HK$120 million to Parklane International Holdings Limited. The note carried interest at 2% per annum payable yearly in arrears, and a right to convert into new shares of the Company at a conversion price of HK$0.42 per share, subject to adjustment, at any time from 22 October 2007 to 21 October 2012.

CONTINGENT LIABILITIES

As at 31 December 2005, 2006 and 2007, the Group had no significant contingent liabilities.

EXCHANGE RATE EXPOSURE

Since most of the income and expenditure of the Group were received and paid in Hong Kong dollars and RMB, the Directors considered that the Group had minimal exposure to foreign currency exchange risk.

CHARGES ON ASSETS

As at 31 December 2007, motor vehicles with an aggregate carrying value of HK$33,476,000 of certain subsidiary of the Company were pledged to a bank to secure general banking facilities granted to the subsidiary.

Save as disclosed above, there was not any charge on the Group's assets as at 31 December 2005, 2006 and 2007.

MATERIAL ACQUISITIONS OR DISPOSALS

On 13 June 2007, the Company entered into a sale and purchase agreement ("SP Agreement") with Parklane International Holdings Limited. Pursuant to the SP Agreement, the Company conditionally agreed to acquire and Parklane International Holdings Limited conditionally agreed to sell the entire issued share capital of Perryville Group Limited and its subsidiaries, at a consideration of HK$170,000,000, of which HK$50 million was settled in cash and HK$120 million was settled by issue of convertible notes. The amounts of goodwill and intangible asset arising as a result of the acquisition were HK$91,872,000 and HK$102,952,000 respectively. The acquisition was completed on 22 October 2007.

Save as disclosed above, the Company has no material acquisitions or disposals of subsidiaries and affiliates companies during the 3 years ended 31 December 2005, 2006 and 2007.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2005, 2006 and 2007, the Group had 50, 42 and 198 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.

2. THE TARGET GROUP

FINANCIAL OPERATIONS OVERVIEW

The Target Group is engaged in exploitation, processing and sale of copper, lead, zinc, arsenic, silver and other mineral resources, through the operations of Luchun Xingtai. Below is the discussion and analysis on Luchun Xingtai for each of the three years ended 31 December 2007.

Turnover

The turnover of Luchun Xingtai for each of the three years ended 31 December 2007 were approximately nil, RMB2.0 million and RMB9.2 million respectively, which were derived from the exploitation, processing and sale of copper concentrates. The copper concentrates were all sold to Yunnan Rui Juyang and Yunnan Maosheng Yuan for subsequent sales to external customers. Luchun Xingtai did not record any turnover in 2005, since the operations has not been formally started during the year.

Cost of sales

The cost of sales of Luchun Xingtai for each of the three years ended 31 December 2007 were approximately nil, RMB2.7 million and RMB13.7 million respectively. Costs of sales consist mainly of direct materials, direct labour and utility costs.

Gross loss

Luchun Xingtai recorded gross loss for the two years ended 31 December 2006 and 2007. Luchun Xingtai sold all the products to Yunnan Rui Juyang and Yunnan Maosheng Yuan at a discount to its cost, for arranging sales and distribution on behalf of Luchun Xingtai. Since the beginning of January 2008, Luchun Xingtai ceased to sell any products to Yunnan Rui Juyang and Yunnan Maosheng Yuan and the products have been sold directly to external customers at the fair market price.

Administrative expenses

The administrative expenses of Luchun Xingtai for each of the three years ended 31 December 2005, 2006 and 2007 were approximately RMB2.6 million, RMB1.6 million and RMB6.5 million respectively. The administrative expenses primarily comprise salaries, welfare and bonus, traveling expenses, general expenses for business development and loss on disposal of property, plant and equipment. Though there were no operations for the year ended 31 December 2005, significant balance of administrative expenses were incurred, resulting from the one-off pre-operating expenses of RMB1.7 million. Increase in balance in 2007 is consistent with the increase in turnover during the year.

Taxation

No provision for PRC enterprice income tax was made for Luchun Xingtai, since Luchun Xingtai was loss-making and there was no assesable profits arising for each of the three years ended 31 December 2007.

LIQUIDITY AND FINANCIAL RESOURCES

For each of the three years ended 31 December 2007, Luchun Xingtai recorded net cash inflow/(outflow) from its operations of approximately RMB(0.1) million, RMB(10.2) million and RMB12.5 million respectively.

Luchun Xingtai's bank balances and cash were in the sum of approximately RMB238,000, RMB140,000 and RMB11,000 as at 31 December 2005, 2006 and 2007 respectively and were all held in RMB. The Target Group's bank balances and cash were approximately RMB17.7 million as at 31 December 2007 and were held in Hong Kong dollars and RMB.

The total assets of Luchun Xingtai were approximately RMB6.6 million, RMB13.4 million and RMB29.0 million as at 31 December 2005, 2006 and 2007 respectively. The total assets of the Target Group were approximately RMB57.3 million as at 31 December 2007.

The total liabilities of Luchun Xingtai were approximately RMB8.7 million, RMB17.7 million and RMB24.2 million as at 31 December 2005, 2006 and 2007 respectively. The total liabilities of the Target Group were approximately RMB42.4 million as at 31 December 2007.

Luchun Xingtai had gearing ratios (total liabilities/total assets) of 131%, 133% and 83% as at 31 December 2005, 2006 and 2007 respectively. The decrease in gearing ratio in 2007 was mainly due to the additional cash contribution from Luchun Xingtai's shareholders by the increase in share capital of RMB19.5 million during the year. The Target Group had gearing ratio of 74% as at 31 December 2007.

As at 31 December 2005, 2006 and 2007, Luchun Xingtai did not have any bank and other borrowings. At 31 December 2007, the Target Group did not have any bank and other borrowings.

For each of the three years ended 31 December 2007, the capital expenditures for Luchun Xingtai amounted to RMB2.9 million, RMB0.6 million and RMB22.7 million respectively.

CHARGES ON ASSETS

By the pledge agreement dated 26 September 2006 among Kunming Commercial Bank and Luchun Xingtai, Luchun Xingtai had pledged the exploitation rights relating to the Mine and the Mining Licence to the bank to secure the repayment obligations of Yunnan Rui Juyang of bank borrowings in the amount of RMB35,000,000. The bank borrowings were fully repaid in September 2007 and the underlying pledge was released.

By two pledge agreements dated 14 December 2007 and 19 December 2007 respectively among Kunming Branch of Shanghai Pudong Development Bank and Luchun Xingtai, Luchun Xingtai had pledged the exploitation rights relating to the Mine and the Mining Licence and certain property, plant and equipment to the bank to secure the repayment obligations of Yunnan Rui Juyang and Yunnan Maosheng Yuan of bank borrowings in the aggregate amount of RMB60,000,000.

Save as disclosed above, there was not any charge on Luchun Xingtai's and the Target Group's assets as at 31 December 2005, 2006 and 2007.

CONTINGENT LIABILITIES

As at 31 December 2005, 2006 and 2007 Luchun Xingtai had no significant contingent liabilities. As at 31 December 2007, the Target Group had no significant contingent liabilities.

CAPITAL STRUCTURE

The capital structures of Luchun Xingtai and the Target Group were as follows:

	Luchun Xingtai as at 31 December			**The Target Group as at 31 December**
	2005	**2006**	**2007**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share capital	500	500	20,000	73
Reserves	(2,583)	(4,848)	(15,177)	14,401
	(2,083)	(4,348)	4,823	14,474

EXCHANGE RATE EXPOSURE

Since most of the income and expenditure of the Target Group were received and paid in Hong Kong dollars and RMB, the Target Group had minimal exposure to foreign currency exchange risk.

MATERIAL ACQUISITIONS OR DISPOSALS

Save for the acquisition of 90% interest in Luchun Xingtai by Smart Year in December 2007, the Target Group had no material acquisition or disposals of subsidiaries and affiliated company during each of the year ended 31 December 2005, 2006 and 2007.

EMPLOYEES AND REMUNERATION POLICY

There are 35, 198 and 259 employees as at 31 December 2005, 2006 and 2007 respectively. The pay levels of employees were commensurate with their responsibilities, performance and contribution to the Target Group and reflected the prevailing industry practice.

30 June 2008

The Directors
Wah Nam International Holdings Limited
3906 Far East Finance Centre
16 Harcourt Road
Admiralty
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 May 2008 ("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 interests of Property 1 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. Therefore we have assigned no commercial value to the Property 1.

For the property interests of Property 2 in Group II which is occupied by the Enlarged Group in the PRC, we have assigned no commercial value to the Property 2 due to the absence of the relevant title documents.

For the property interests in Group III and IV which are leased by the Enlarged Group in Hong Kong and the PRC, 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 Group's PRC legal advisers, Guantao Law Firm.

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 interests 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 May 2008 was HK$1 = RMB0.897. 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 and 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 twenty years' experiences in undertaking valuations of properties in Hong Kong and has over thirteen years' experiences in valuations of properties in the PRC.

SUMMARY OF VALUATION

Group I — Property interests held for investment by the Enlarged Group in the PRC

	Property	Market Value as at 31 May 2008
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 interests occupied by the Enlarged Group in the PRC

2.	A mining plant located at Damajian Hill Luchun County Yunnan Province The PRC	No commercial value

Group III — Property interests leased by the Enlarged Group in Hong Kong

	Property	Market Value as at 31 May 2008
3.	Unit 702, 7th Floor, Yue Hwa International Building, No. 1 Kowloon Park Drive, Tsim Sha Tsui, Kowloon, Hong Kong	No commercial value
4.	Unit 401, 4th Floor, Yue Hwa International Building, No. 1 Kowloon Park Drive, Tsim Sha Tsui, Kowloon, Hong Kong	No commercial value
5.	Counters A16 and B16, Hong Kong International Airport, Chep Lap Kok, Lantau Island, New Territories, Hong Kong	No commercial value

Group IV — Property interests leased by the Enlarged Group in the PRC

	Property	Market Value as at 31 May 2008
6.	A building located at the opposite side of Gas Station of Minzu Fengqing Yuen Luchun County Yunnan Province The PRC	No commercial value
	Total	**No commercial value**

VALUATION CERTIFICATE

Group I — Property interests held for investment by the Enlarged Group in the PRC

	Property	Description	Particulars of occupancy	Market Value as at 31 May 2008
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	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 interests occupied by the Enlarged Group in the PRC

	Property	Description	Particulars of occupancy	Market Value as at 31 May 2008
2.	A mining plant located at Damajian Hill Luchun County Yunnan Province The PRC	The property comprises a parcel of land having a site area of approximately 59,162.02 sq.m. together with various buildings and constructions in progress erected thereon. The buildings have a gross floor area of approximately 4,298.56 sq.m.. The constructions in progress will have a gross floor area of approximately 2,333.10 sq.m. upon completion.	The property is occupied by the Enlarged Group as mining plant.	No commercial value

Notes:

1. In our valuation, we have ascribed "no commercial value" to the land due to the absence of the relevant title documents of the land. Should the Enlarged Group obtain all the title documents of the land, the capital value of the land at its existing state as at 31 May 2008 was in the sum of RMB4,970,000.

2. In our valuation, we have ascribed "no commercial value" to the buildings due to the absence of the relevant title documents of the buildings. Should the Enlarged Group obtain all the title documents of the buildings, the capital value of the buildings at its existing state as at 31 May 2008 was in the sum of RMB3,760,000.

3. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

   (i) the Enlarged Group does not possess the tile documents of the land and buildings. As the Enlarged Group owns the mining rights, the Enlarged Group shall have rights to acquire the land use rights of the land due to the needs of mining production and construction under the PRC's laws;

   (ii) as advised by the Group's PRC legal advisors, there is no legal impediment for obtaining the relevant Land Use Rights Certificate of the land; and

   (iii) after obtaining the relevant land use rights certificate, there is no legal impediment for obtaining the relevant Building Ownership Certificates of the buildings erected on the land.

Group III — Property interests leased by the Enlarged Group in Hong Kong

	Property	Description	Particulars of occupancy	Market Value as at 31 May 2008
3.	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-strorey (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 2007 to 30 November 2009 at a monthly rental of HK$42,000 exclusive of management fee, rates and air conditioning charge. The property is occupied by Group 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 rental 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 May 2008
4.	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-strorey (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 rental of HK$25,000, exclusive of management fee, rates and air conditioning charge. The property is occupied by the Enlarged Group 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. 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 May 2008
5.	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

Notes:

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.

Group IV — Property interests leased by the Enlarged Group in the PRC

	Property	Description	Particulars of occupancy	Market Value as at 31 May 2008
6.	A building located at the opposite side of Gas Station of Minzu Fengqing Yuen Lu Chun County Yunnan Province The PRC	The property comprises a 3-storey building completed between 2000 and 2004. The property has a gross floor area of approximately 660.16 sq.m.	The property is leased to 綠春鑫泰礦業有限公司 for a term of 10 years from 18 April 2007 to 17 April 2017 at a yearly rental of RMB2,000 exclusive of electricity and water charges. The property is occupied by the Group as office.	No commercial value

Notes:

1. According to the Building Ownership Certificate (No. 房權證綠字第200400213號), the ownership of the property having a gross floor area of approximately 660.16 sq.m. is vested in 王小剛.

2. According to a Tenancy Agreement entered into between 王小剛 ("Party A") and 綠春鑫泰礦業有限公司 ("Party B") dated 18 April 2007, the property is leased from Party A to Party B for a term of 10 year from 18 April 2007 to 17 April 2017 at a yearly rental of RMB2,000 exclusive of electricity and water charges.

3. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

   (i) The tenancy agreement of the property is legal and valid.

   (ii) The building ownership of the property is legally owned by 王小剛 who is entitled to lease the property.

   (iii) The tenancy agreement has not been registered but this will not affect the legality and validity of the tenancy agreements, the rights of the Enlarged Group as lessee under the tenancy agreement is legally recognized and protected under PRC laws.

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30 June 2008

The Board of Directors
Wah Nam International Holdings Limited
Suite 3906 Far East Finance Centre
16 Harcourt Road
Admiralty, Hong Kong

Gentlemen,

Behre Dolbear Asia, Inc. ("BDASIA"), a subsidiary of Behre Dolbear & Company, Inc. ("Behre Dolbear"), herewith submits a report on the Independent Technical Review of the Damajianshan Copper Polymetallic Mine (the "Damajianshan Mine") of Luchun Xingtai Mining Company Limited ("Luchun Xingtai"), Luchun County, Yunnan Province, The People's Republic of China. The address for BDASIA is noted above. This letter of transmittal is part of the report.

The review covers the Damajianshan Mine in detail, which is 100% owned by Luchun Xingtai. The Damajianshan Mine constitutes the primary mining assets of Luchun Xingtai. BDASIA visited the Damajianshan Mine in February 2008. Luchun Xingtai is a Sino-foreign joint venture 90%-owned by Smart Year Investments Limited ("Smart Year"), a company incorporated in the British Virgin Islands, and 10% owned by a private Chinese company.

The purpose of this report is to provide an independent technical assessment of Luchun Xingtai's Damajianshan Mine in relation to the acquisition (the "Acquisition") of a 100% interest in Smart Year by Wah Nam International Holdings Limited ("Wah Nam International" or the "Company"), a company whose shares are listed on The Stock Exchange of Hong Kong Limited ("SEHK"). This technical report has been prepared in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), in particular, Chapter 18. The reporting standard adopted by this report is the VALMIN Code and Guidelines for Technical Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy in 1995 and updated in 2005. Mineral resources and ore reserves defined at each property have been reviewed for conformity with the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code") prepared by the Joint Ore Reserve Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia in 1999 and revised in 2004.

The evidence upon which the estimated mineral resources and ore reserves are based includes the deposit geology, drilling and sampling information and project economics. The basis upon which BDASIA forms its view on the mineral resource and ore reserve estimates includes the site visit of BDASIA's professionals to the subject mining property, interviews with Luchun Xingtai's site personnel and consultants, and analysis of the drilling and sampling database, procedures and parameters used for the estimates.

The BDASIA project team consisted of senior-level mining professionals from Behre Dolbear's Denver office in the United States, London office in the United Kingdom, Sydney office in Australia and Toronto office in Canada. The scope of work conducted by BDASIA included site visit to the Damajianshan Mine, technical analysis of the project geology, mineral resource and ore reserve estimates, and review of project mining, processing, production, environment, occupational health and safety, operating costs, and capital costs.

BDASIA has not undertaken an audit of Luchun Xingtai's data, re-estimated the mineral resources, or reviewed the tenement status with respect to any legal or statutory issues.

BDASIA's report comprises an Introduction, followed by reviews of the technical aspects of Geology, Mineral Resources and Ore Reserves, Mining, Processing, Production, Operating and Capital Costs, Environmental, Occupational Health and Safety issues, and a Risk Analysis of the mining property. We trust that the report adequately and appropriately describes the technical aspects of the projects and addresses issues of significance and risk.

BDASIA is independent of Wah Nam International, Smart Year, Luchun Xingtai and the Damajianshan Mine. Neither BDASIA nor any of its employees or associates involved in this project holds any share or has any direct or indirect pecuniary or contingent interests of any kind in Wah Nam International, Smart Year, Luchun Xingtai or the Damajianshan Mine. BDASIA is to receive a fee for its services (the work product of which includes this report) at its normal commercial rate and customary payment schedules. The payment of our professional fee is not contingent on the outcome of this report.

This report documents the findings of BDASIA's review of the Damajianshan Mine completed to the date of this transmittal letter. The sole purpose of this report is for the use of the Directors of Wah Nam International and their financial advisors for inclusion in circular of Wah Nam International to its shareholders in relation to the Acquisition and should not be used or relied upon for any other purpose. Neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any document or used for any other purpose, without BDASIA's written consent to the form and context in which it appears. BDASIA consents to the inclusion of this report in the circular of Wah Nam International to its shareholders in relation to the Acquisition.

Yours faithfully,
BEHRE DOLBEAR ASIA, INC.
Qingping Deng
President

Behre Dolbear Project 08-003

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1.0 INTRODUCTION

Wah Nam International Holdings Limited ("Wah Nam International" or the "Company") is a company listed on The Stock Exchange of Hong Kong Limited ("SEHK"). Wah Nam International is proposing to acquire (the "Acquisition") a 100% interest in Smart Year Investments Limited ("Smart Year"), a company incorporated in the British Virgin Islands ("BVI"), which owns a 90% interest of Luchun Xingtai Mining Company Limited ("Luchun Xingtai"), a Sino-foreign joint venture company registered in Yunnan Province of the People's Republic of China ("PRC" or "China"). The remaining 10% interest of Luchun Xingtai is owned by a private Chinese company.

Luchun Xingtai has a 100% interest in the Damajianshan copper polymetallic mine (the "Damajianshan Mine") located in Luchun County, Yunnan Province, near the border between China and Vietnam (Figure 1.1). The Damajianshan Mine is currently under expansion from a production capacity of 300 tonnes per day ("tpd") to 1,300 tpd, or 429,000 tonnes per annum ("tpa") based on a 330 working days per annum. The operation will use underground mining and flotation processing methods to produce copper, lead and arsenic concentrates. Significant amounts of silver will be recovered in both the copper and lead concentrates. BDASIA believes that further expansion of the production capacity can be supported by the project mineral resource basis and significant exploration potential.

The Board of Directors of Wah Nam International engaged Behre Dolbear Asia, Inc. ("BDASIA"), a subsidiary of Behre Dolbear & Company, Inc. ("Behre Dolbear"), as their independent technical advisor to undertake an independent technical review of the Damajianshan Mine and to prepare an independent technical report in connection with the Wah Nam International acquisition. This BDASIA report is intended to be included in the circular of Wah Nam International to its shareholders in relation to the Acquisition.

BDASIA's project team for this technical review consists of senior-level professionals from Behre Dolbear's Denver office in the United States, London office in the United Kingdom, Sydney office in Australia and Toronto office in Canada. Behre Dolbear personnel contributing to the study and to this technical report include:

- **Dr. Qingping Deng**, President of BDASIA and Global Director of Ore Reserves and Mine Planning for Behre Dolbear, was BDASIA's **Project Manager** and **Project Geologist** for this technical review. Dr. Deng is a geologist with more than 24 years of professional experience in the areas of exploration, deposit modeling and mine planning, estimation of mineral resources and ore reserves, geostatistics, cash-flow analysis, project evaluation/valuation, and feasibility studies in North, Central and South America, Asia, Europe and Africa. Dr. Deng is a Certified Professional Geologist of the American Institute of Professional

Geologists and meets all the requirements for "Competent Person" as defined in the 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("the JORC Code") and the requirements for "Qualified Person" as defined in Canadian National Instrument 43-101. Dr. Deng is fluent in both English and Chinese.

- **Mr. David Libby**, a Senior Consultant of Behre Dolbear's Toronto office, was BDASIA's **Project Mining Engineer** for this study. Mr. Libby has over 30 years of experience in the mining industry in operations and management of open pit and underground mines. He has participated in new project development as well as upgrading existing operations. At the executive level, Mr. Libby conducted due diligence reviews for corporate development purposes. The experience provided a broad exposure to all aspects of operations management. Mr. Libby has operating mining experience on three continents, overseeing mines in Ireland, Canada, and Chile. He is a licensed professional mining engineer in Canada.

- **Mr. Vuko Lepetic**, a Senior Associate of Behre Dolbear's London office, was BDASIA's **Project Metallurgist**. Mr. Lepetic has over 30 years of worldwide experience in mineral processing and metallurgy. He has worked with and has extensive knowledge of processes employed and products produced by Luchun Xingtai. Mr. Lepetic holds patents for stibnite and cassiterite flotation (both industrially employed) as well as records of invention for the processing of iron, lead and zinc oxide minerals, rare earths and phosphates.

Figure 1.1 Location Map of the Damajianshan Mine

- **Ms. Janet Epps**, a Senior Associate of Behre Dolbear's Sydney office, was BDASIA's **Project Environment, Occupational Health and Safety Specialist**. She has over 30 years experience in environmental and community issues management, sustainability, policy development and regulatory consultancy services. Ms. Epps has worked extensively with the private sector, with government and the UN, World Bank, the IFC and the Multilateral Investment Guarantee Agency (MIGA), and with the mining industry, providing policy advice to governments of developing countries on designated projects and contributing towards sustainable development and environmental management strategies. She has completed assignments in Australasia, the Pacific, Asia, Middle East, CIS, Africa, Eastern Europe, South America and the Caribbean.

- **Mr. Bernard J. Guarnera**, President and Chief Executive Officer of Behre Dolbear & Company, Inc. was subcontracted to act as BDASIA's **Project Advisor**. He is a Certified Mineral Appraiser with extensive experience in the valuation of mineral properties and mining companies. He is a registered Professional Engineer, a Registered Professional Geologist and a Chartered Professional (Geology) of the Australasian Institute of Mining and Metallurgy. Mr. Guarnera has over 30 years of professional experience and his career includes senior-level positions in exploration and development at a number of major U. S. natural resource companies. Mr. Guarnera meets all the requirements for "Competent Person" in Australia and "Qualified Person" in Canada.

BDASIA's project team, with the exception of Mr. Guarnera, traveled to China and visited the Damajianshan Mine in Luchun, Yunnan that is reviewed in this report from February 15 to February 21, 2008. During BDASIA's visit, discussions were held with technical and managerial staff at the mine sites and with technical, management personnel and consultants of Luchun Xingtai in Kunming, capital city of Yunnan Province. Production schedules, budgets and forecasts for 2008-2011 were reviewed, together with longer term development plans.

This BDASIA report contains forecasts and projections prepared by BDASIA, based on information provided by Luchun Xingtai. BDASIA's assessment of the projected production schedule, capital and operating costs are based on technical reviews of project data and a project site visit.

The metric system is used throughout this report. The currency used is the Chinese Yuan (or RMB) and/or the United States dollar (US$). The exchange rate used in the report is RMB7.11 for US$1.00, the rate of the People's Bank of China prevailing on February 29, 2008.

2.0 QUALIFICATIONS OF BEHRE DOLBEAR

Behre Dolbear & Company, Inc. is an international minerals industry consulting group which has operated continuously in North America and worldwide since 1911, currently with offices in Beijing, Denver, Guadalajara, London, New York, Santiago, Sydney, Toronto, Vancouver, and Hong Kong.

The firm specializes in performing mineral industry studies for mining companies, financial institutions, and natural resource firms, including mineral resource/ore reserve compilations and audits, mineral property evaluations and valuations, due diligence studies and independent expert reviews for acquisition and financing purposes, project feasibility studies, assistance in negotiating mineral agreements, and market analyses. The firm has worked with a broad spectrum of commodities including base and precious metals, coal, ferrous metals, and industrial minerals on a worldwide basis. Behre Dolbear has acted on behalf of numerous international banks, financial institutions and mining clients and is well regarded worldwide as an independent expert engineering consultant in the minerals industry. Behre Dolbear has prepared numerous independent technical reports for mining projects worldwide to support securities exchange filings of mining companies in Hong Kong, the United States, Canada, Australia, the United Kingdom, and other countries.

Most of Behre Dolbear's associates and consultants have occupied senior corporate management and operational roles and are thus well-experienced from an operational view point as well as being independent expert consultants.

BDASIA is a wholly-owned subsidiary of Behre Dolbear established in 2004 to manage Behre Dolbear's projects in China and other Asian countries. Project teams of BDASIA commonly consist of senior-level professionals from Behre Dolbear's Denver office in the United States, Sydney office in Australia, London office in the United Kingdom and other worldwide offices. Since its establishment, BDASIA has conducted approximately 20 technical studies for mining projects in China or oversea mining projects to be acquired by SEHK-listed Chinese companies, including independent technical reports for SEHK IPO prospectus of Hunan Nonferrous Metals Corporation Limited, Zhaojin Mining Industry Company Limited, and Hidili Industry International Development Limited and for the Shanghai Stock Exchange ("SSE") IPO listing of Western Mining Company Limited. These four reports were prepared in accordance with the SEHK Listing Rules, the JORC Code and the VALMIN Code, and these four companies were successfully listed on the SEHK/SSE in 2006 and 2007.

3.0 DISCLAIMER

BDASIA has conducted an independent technical review of Luchun Xingtai's Damajianshan mining property and holdings. A site visit was made to the project site by BDASIA professionals involved in this project. BDASIA has exercised all due care in reviewing the supplied information and believes that the basic assumptions are factual and correct and the interpretations are reasonable. BDASIA has independently analyzed Luchun Xingtai's data, but the accuracy of the conclusions of the review largely relies on the accuracy of the supplied data. BDASIA does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from investment or other financial decisions or actions.

4.0 PROPERTY DESCRIPTION

4.1 Location, Infrastructure and Access

The Damajianshan Mine is located in Qimaba Township, Luchun County of Yunnan Province, and near the border between China and Vietnam (Figure 1.1). The project location is remote and the access is rather difficult because of the steep terrain in the area. Road distance is approximately 13 kilometers ("km") from the mine to the town of Qimaba located to the northwest and approximately 114 km from the town of Qimaba to the Luchun County seat located to the north. Roads from Qimaba to Luchun are cement-paved or stone-paved, mountainous winding roads. The road from the mine to Qimaba is a winding gravel/dirt road and is rather difficult to travel. Driving time is approximately 45 minutes from the mine to Qimaba and approximately 4 hours from Qimaba to Luchun. Significant delays could occur during the rainy season when the road is damaged by heavy rains and storms. The road distance from the mine to Kunming, the capital city of Yunnan Province located to the north, is approximately 550 km. Supplies for the mine generally come from Qimaba and Luchun. Concentrates produced from the mine will be trucked by contractors to the smelters located in Kunming and other places in Yunnan Province.

Electricity for the mine is supplied by the local power grid. A 10-kilovolt ("kV") power transmission line has been constructed from the mine to the 35-kV Dashui substation located 6 km to the northwest. BDASIA was advised by Luchun Xingtai that this 10-kV power line will be sufficient to supply electric power for the 1,300 tpd mine and mill production and that power supply in the area is generally sufficient. The power transmission line will need to be upgraded if production is further expanded.

The mine is located in a humid sub-tropical region with abundant surface and ground water. Water supply for production will be from drained underground mine water and nearby springs. Water from the tailings ponds will also be recycled for production.

4.2 Climate and Physiography

The Damajianshan Mine is located in a mountainous region in southern China with a local elevation ranging from 480 meters ("m") at the Zhama river valley located to the north of the mine to approximately 1,276 m at the summit of the Damajianshan Mountain located to the south of the mine. The ground is generally high in the south and low to the north. Surface in the area is quite steep and the surface slope generally ranges from 20° to 60°. Hills in the area are generally covered by heavy vegetation, and land in the valleys and gentle slopes is generally used for agricultural purposes. Primary crops in the area include rice, corn and tea.

The mine is located on the northern slope of the Damajianshan Mountain, and the main transportation adit (YD2) is at an elevation of 650 m. The distance from the main adit to the concentrating plant is only approximately 200 m.

The climate is humid sub-tropical in the area. Summers are hot and long with a temperature high of approximately 35 to 40ºC, and winters are warm with the daily average temperature ranging from 9 to 23ºC. Average annual precipitation is approximately 2,100 millimeters (“mm”), and May to October is the rainy season, accounting for about 80% of the annual precipitation. November to April of the next year is the dry season.

Luchun is a minority-dominant autonomous county. Approximately 85% of the population is Hani, with many other smaller minorities. The local economy is currently underdeveloped because of the remote location. The development of the Damajianshan Mine will contribute significantly to the local economy, and therefore is supported by the local government and residents.

4.3 Property Ownership

Under the “Mineral Resource Law of the PRC”, all mineral resources in China are owned by the state. A mining or exploration enterprise may obtain a permit for the mining or exploration right for conducting mining or exploration activities in a specific area during a specified license period. The permits are generally extendable at the end of the license period. A mining license has both horizontal limits and elevation limits, but an exploration license has only horizontal limits.

Details of the effective date and geographic area of the permit for the mining right relating to the Damajianshan Mine reviewed in this technical report have been provided to BDASIA by Luchun Xingtai and is presented in Table 4.1. BDASIA has not undertaken a legal due diligence review of this permit as such is outside the scope of BDASIA’s technical review. BDASIA has relied upon Luchun Xingtai’s advice as to the validity of this mining right. BDASIA understands that the legal due diligence review of the mining right has been undertaken by the Company’s legal consultants.

Table 4.1
Permit for the Mining Right of the Damajianshan Mine

Property	License Type	Number	Area (km^2)	Elevation Range (m)	Term
Damajianshan Copper Mine	Mining	5300000720259	3.6656	680 ~ 1,230	Sep 2007 – Sep 2012

As shown in Table 4.1, Luchun Xingtai holds a permit for a mining right of 3.6656 square kilometers ("km^2") in area; the elevation range for the mining license is from 680 m to the current topographic surface. The current mining license is valid until September 2012 and is extendable. BDASIA notes that a significant part of the currently defined mineral resources in the Damajianshan Mine is below the lower limit of the current mining license. Luchun Xingtai has advised that an application to adjust the lower limit of the mining license to an elevation of 0 m has been submitted to the relevant authority. BDASIA's review of the mineral resources and ore reserves for the Damajianshan Mine in this report is conditioned on the premise that the revised mining license with a lower limit of 0 m will be granted to Luchun Xingtai. All currently defined mineral resources and ore reserves are within the horizontal boundary of the mining license.

4.4 Project History and Current Status

Copper and arsenic mineralization at Damajianshan was discovered in the 1960s. However, very limited exploration work was done until the 1990s. The mine was first explored for arsenic from October 1992 to February 1994 by the No.1 Geological Team of the Yunnan Provincial Geological Bureau, and a report titled "Exploration Report for the Damajianshan Arsenic Mine in Luchun County, Yunnan Province" was produced from the study. Small scale mining for arsenic from the deposit by local miners started in 1989, and the mining scale was significantly increased in 1994 after the No.1 Geological Team's study. Arsenic mining was from both the surface and the underground. No detailed production records are available for BDASIA's review. It is reported that the total mined-out arsenic ore to 2004 was estimated to be approximately 500,000 tonnes ("t").

The project was further explored as a copper-arsenic project and a report titled "Exploration Report for the Damajianshan Copper-Arsenic Mine in Luchun County, Yunnan Province" was completed by the No.2 Mineral Resource Research Institute of Yunnan Geological Survey in April 2005. Gejiu City Chuantian Mining Limited Liability Company ("Gejiu Chuantian") acquired the Damajianshan property in February 2004 and a flotation concentrator with a production capacity of 100 tpd was constructed in the same year. The concentrator has been expanded to a processing capacity of 300 tpd to the end of 2006. Mining for copper and arsenic ore from underground workings by Luchun Xingtai started in 2005 and it is reported that a total of approximately 25,000 t of ore with an average grade of 1.59% copper and 6.02% arsenic was produced from the property from 2005 to the end of the first quarter of 2007. Mining at the property was then suspended for the acquisition of a 90% interest of Gejiu

Chuantian by Smart Year and for the project expansion. After the acquisition, Gejiu Chuantian was renamed Luchun Xingtai and became a Sino-foreign joint venture in December 2007.

Luchun Xingtai engaged Kunming University of Science and Technology ("KUST"), a licensed exploration entity in China, in early 2007 to conduct a systematic detailed sampling program from existing surface trenches and underground workings and to conduct an updated mineral resource estimation based on the sampling results. A report with an updated mineral resource estimate was submitted to Luchun Xingtai in July 2007. The new sampling program shows that copper polymetallic mineralization is not only limited to the structural zones, which was the primary target of previous mining activities, but also widely distributed in the strong, pervasive alteration zones adjacent to the structural zones. Therefore, the deposit size has increased significantly. Based on the new mineral resource estimate, Xian Nonferrous Metallurgical Engineering and Research Institute (the "Xian Institute"), located in Xian, Shanxi Province, completed a feasibility study for a 1,300 tpd underground mining and flotation processing project for Damajianshan in January 2008. BDASIA's technical review of the Damajianshan Mine is generally based on the updated mineral resource estimate by KUST and the project feasibility study by the Xian Institute.

The project is currently under expansion from a 300 tpd operation to a 1,300 tpd operation. A new flotation mill with a production capacity of 1,000 tpd was basically completed during BDASIA's site visit to the property in mid-February 2008. Mine development was underway and construction of a new tailings dam was expected to commence soon. Production of the 1,300 tpd project is expected to commence late in 2008 and full production is to be reached at the end of 2008.

However, BDASIA's observation during the site visit shows that the Damajianshan deposit has not been well defined by the latest sampling program as most of the existing underground workings do not penetrate the mineralized bodies. Therefore, the location of the hangingwall and footwall as well as the actual dimension of the orebodies in the deposit is basically unknown and the actual mineral resources could be significantly larger than those defined by the current mineral resource estimate. BDASIA believes that it is very important for Luchun Xingtai to conduct a new phase of exploration work to define the dimensions of the mineralized system using systematical underground development and/or drilling. The mining system and mining methods need be redesigned based on the findings of the new exploration work, likely in a larger production capacity. Because of the needed additional exploration work, initial mine production will likely be postponed from the current plan, but will be on a more solid basis and perhaps on a larger scale.

5.0 GEOLOGY AND DATABASE

5.1 Geology of the Damajianshan Deposit

The Damajianshan Mine is a structurally-controlled hydrothermal copper polymetallic deposit related to Mesozoic late Yanshanian granitic intrusives. Stratigraphy in the deposit area includes the Lower Silurian System and the Quaternary alluviums and colluviums. The Lower Silurian System is divided into two members. The lower member consists of metamorphosed quartz arkoses at the lower section, and metamorphosed fine-grained quartz sandstones, quartz siltstones and sericitic slates at the upper section. The upper member of the system is subdivided into four sections. The lower section consists of sandy sericite slates and quartz siltstones; the second section consists of metamorphosed silicic sericite quartz sandstones with interbedded phyllitic slates; the third section consists of metamorphosed quartz siltstone with interbedded sandy sericite slates; the upper section consists of interbedded sandy sericite slates and phyllitic sericite slates. The Silurian strata in the deposit area generally dip to the northeast at angles between 25° and 60°. The upper section of the lower member of the Lower Silurian System is the most-widely distributed strata and is the primary host of copper polymetallic mineralization in the area.

The Silurian strata were intruded by several small late-Yanshanian quartz porphyry stocks. It is expected that these small quartz porphyry stocks are connected to a larger granitic intrusive at the depth, which controls the alteration and mineralization system in the deposit area. The mineralized system was also intruded by some post-mineral mafic intrusive dikes.

A set of northwest- to north-northwest-striking normal faults with a high-angle dip to the northeast, control the distribution of copper polymetallic mineralization in the deposit and the mineralized system was offset by a set of northeast-striking normal faults with a high-angle northwest dip. The mineralization-controlling faults generally exhibit multiple-stage structural movement.

The copper polymetallic mineralization in the deposit consists of a series of mineralized bodies controlled by the northwest- to north-northwest-striking faults. A total of eleven orebodies have been identified to date and the No.I orebody by far is the best known and the most important, which accounts for approximately 77% of the estimated mineral resources. The No.VIII orebody is next and accounts for approximately 17% of the estimated mineral resources.

The No.I orebody is the best defined ore zone at Damajianshan. It is controlled by 13 surface trenches at an approximately 100-m spacing and 13 underground levels at a vertical interval of approximately 50 m. The orebody outcrops at the surface at elevations from 580 m to 1,170 m; its controlled strike length is over 1,200 m and the controlled extension along the dip direction ranges from less than 10 m to over 150 m. The orebody consists of massive sulfide-quartz veins within the main mineralization-controlling structures and strongly and pervasively silicified and mineralized slates adjacent to the structure. The true horizontal width of the orebody is generally unknown at this stage as almost all the sampling crosscuts have not completely penetrated the orebody. The controlled horizontal width of the orebody ranges from less than 10 m to over 70 m with an average of 18.0 m. BDASIA believes that the true horizontal width of the orebody could be significantly larger than the controlled horizontal width. The No.1 orebody was offset by a northeast-striking post-mineral fault into two sub-orebodies, the No.I-1 and the No.I-2. The No.I-1 orebody is much larger and well defined; it accounts for approximately 94% of the defined mineral resources in the No.I orebody. Its grade ranges from 0.54% to 2.49% with an average of 1.82% for copper, 0.43% to 14.51% with an average of 7.20% for arsenic, 0.84% to 15.38% with an average of 1.75% for lead, 0.15% to 20.12% with an average of 0.45% for zinc, 0.19% to 10.71% with an average of 0.24% for bismuth, and 1.56 to 188 grams per tonne ("g/t") with an average of 56.3 g/t for silver. The orebody is open in almost all directions except to the surface.

The No.VIII orebody is located about 200 m west of the No.I orebody and is currently the second largest in the deposit. It is currently defined by two surface trenches and two underground levels. The orebody outcrops at elevations between 750 m to 900 m and has a controlled strike length of 227 m. Similar to the No.I orebody, the true horizontal width of the No.VIII orebody is unknown as the current sampling by underground workings did not penetrate the mineralization. The controlled horizontal width ranges from less than 5 m to over 50 m with an average of 24.0 m. The mineralization is also open to depth and along strike. Current sampling data indicates an average grade of 1.31% for copper, 1.81% for lead and 5.44% for arsenic.

The nine other mineralized bodies are generally located to the east of the No.I orebody and are defined only by limited surface trenches. The controlled length of the mineralized bodies ranges from less than 100 m to over 300 m. True widths and down-dip extensions of the mineralized bodies are currently unknown. Limited surface trench sampling data shows similar metal grades as the No.I and No.VIII orebodies.

Primary metallic minerals for the copper-polymetallic mineralization are chalcopyrite, arsenopyrite, pyrite, pyrrhotite and galena, with small amounts of chalcocite, sphalerite, covellite, tennantite and bismuthinite. Sulfide minerals occur as massive to semi-massive veins in the structures or as veinlets and disseminations throughout the pervasively silicified slates. The mineralized slates are extremely hard and competent because of strong pervasive silicification. Oxidation of the sulfide minerals is limited to surface exposures and limited fractural surfaces in the deposit. Gangue minerals are mostly quartz, silicified slates with a small amount of sericite, chlorite, calcite and dolomite.

Figure 5.1 is a geological plan of the Damajianshan copper deposit and Figure 5.2 is a typical cross section of No.I orebody in the deposit. BDASIA notes that the entire area in Figure 5.1 is within Luchun Xingtai's current mining license and that the orebody width in Figure 5.2 is based on the current available data and the true width should be larger than that shown in the section.

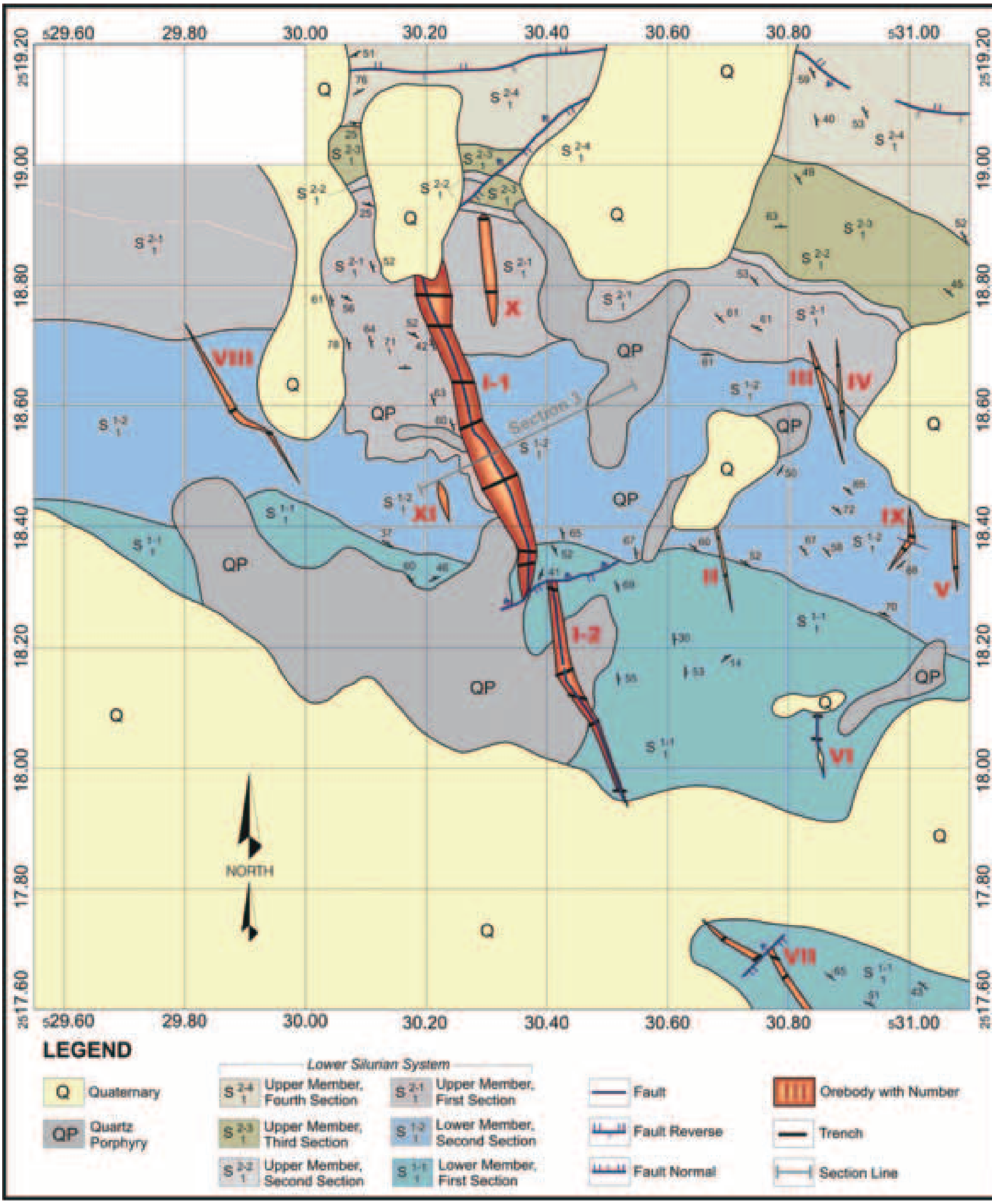

Figure 5.1 Geology Plan Map of the Damajianshan Copper Deposit

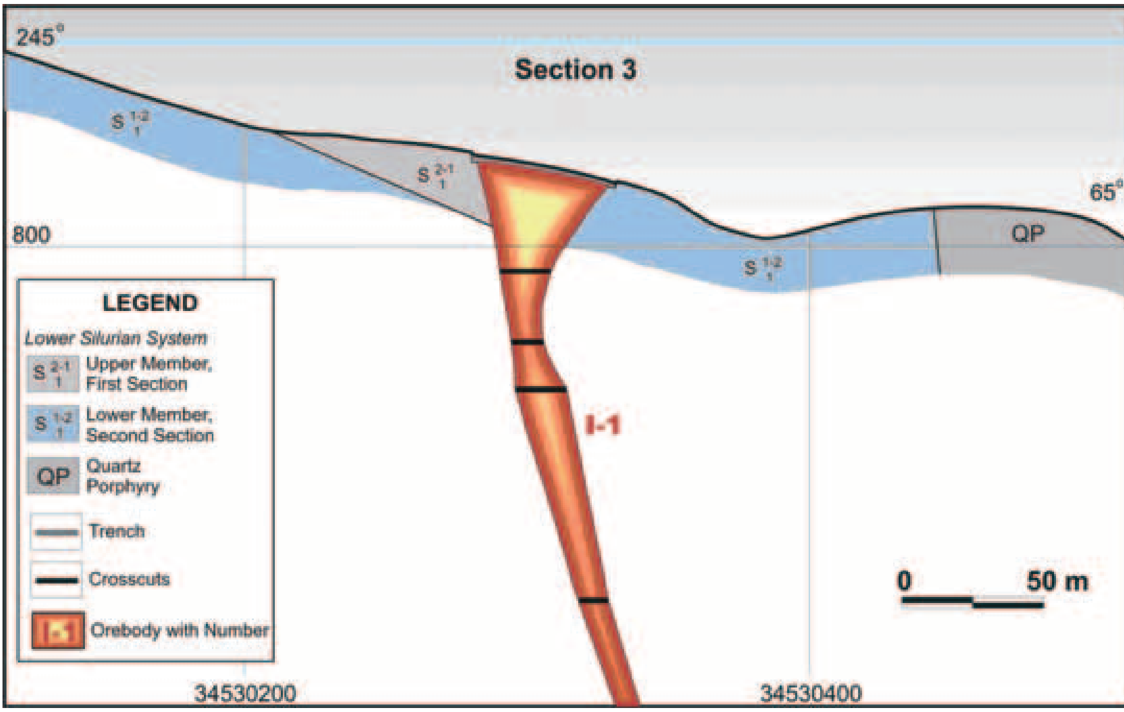

Figure 5.2 A typical Cross Section of the No.I-1 Orebody in Damajianshan Deposit
(Location of the section is shown in Figure 5.1.)

5.2 Geological Database

5.2.1 Database Used for Mineral Resource Estimates

Databases used for mineral resource estimation are generated by licensed exploration entities and/or by the mines in China. Guidelines specifying the appropriate sampling, sample preparation and assaying techniques and procedures for different types of mineral deposits are issued by the relevant government authorities. The databases used for mineral resource estimation are generally produced following these set guidelines.

The Damajianshan deposit has been explored by surface trenches and underground workings. These surface trenches and underground workings were developed by different operators of the property at different times, and their distributions are somewhat irregular. In general, surface trenches at approximately 100-m spacing were developed to define the surface exposures of the mineralized bodies. Systematic underground workings at an approximately 50-m vertical spacing have only been developed for the primary No.I orebody. A total of 13 levels, from an elevation of 586 m to 1,180 m, were developed for the No.I orebody. Each level consists of a drift at the footwall of the massive mineralized structural zone and a number of crosscuts with limited length at an irregular spacing (generally 50 m to 100 m). A systematic sampling program along all accessible surface trenches and underground workings forms the basis for the current mineral resource estimation for the Damajianshan deposit.

As discussed previously, due to historical reasons, almost none of the underground workings penetrate the mineralized bodies. Sample assay results show that the last samples for almost all crosscuts are still ore grade. Therefore, the true width of the mineralization system is unknown. The mineralized system is also open to the depth and along strike, indicating significant additional upside potential. The current mineral resource estimate was conducted using the controlled width of the mineralized bodies, which BDASIA believes is conservative.

Table 5.1 summarizes the database used for the mineral resource estimation for the Damajianshan deposit reviewed in this report.

Table 5.1
Mineral Resource Database Statistics for the Damajianshan Mine

Sample Type	Number
U/G Development	
Meters	3,071
Surface Trenching	
Meters	800
Assays	
Individual Samples	1,203
Composites	25
Internal Check Assays	138
External Check Assays	76
Density Measurements	
Rock	30

5.2.2 Sampling, Sample Preparation and Analysis

Sampling for the current resource estimation was undertaken by staff from KUST. Underground channel samples were taken at around waist height in crosscuts and sometimes in drifts. Surface trench channel samples were taken from one trench wall below the overburden. The channel samples were generally cut 10 centimeters ("cm") wide and 3 cm deep. The sample length was typically 2 m, but variable lengths may be used based on geological characteristics. Location of the underground workings and surface trenches has been surveyed using survey instruments.

Sample preparation and analysis was undertaken by Gejiu No. 308 Mineral Analytic Laboratory, a licensed commercial analytic laboratory located in Gejiu, Yunnan. BDASIA visited this analytic laboratory during the February 2008 site visit to the Damajianshan Mine and found the facilities in good order and the sample preparation procedures generally consistent with mining industry practice.

Copper, arsenic, lead, zinc, bismuth and silver grade analysis of the samples was conducted by ICP-AES (Inductively Coupled Plasma-Atomic Emission Spectroscopy) and AAS (Atomic Absorption Spectroscopy) methods. High-grade samples above the detection limits of ICP-AES and AAS were determined using wet chemical analysis. These analytical methods are widely used in the mining industry in China, and generally produce reliable results, if conducted correctly.

A total of 1,203 samples were taken from the deposit and their assay results were used for the current resource estimation. BDASIA reviewed the original assay certificates from Gejiu No. 308 Mineral Analytic Laboratory, and has compared the assays certificates with sample grades used for resource estimation for some randomly selected intervals. No data entry errors were found.

5.2.3 Quality Control and Quality Assurance

Assay quality control and quality assurance programs include internal check assays, external check assays, and analysis of assay standards. For 1,203 samples used for mineral resource estimation, 138 (11.5%) wee subject to an internal check assay and 76 (6.3%) were sent for external check assays. The external check assays were conducted by an unpaired commercial assay laboratory. In order to determine the assay quality, check assay results were compared with the original assay results and the variance compared with permitted random error limits specified by government regulation for various grade ranges. Check assay results indicate that the assay results from Gejiu No. 308 Mineral Analytic Laboratory are generally reliable and can be used for mineral resource estimation of the Damajianshan deposit.

5.2.4 Bulk Density Measurements

Bulk density data were collected using rock samples from underground workings. The bulk density of rock samples was measured using a wax-coated water immersion method.

A total of 30 bulk density measurements were undertaken for the current mineral resource estimation and the average bulk density from the measurements is 3.05 grams per cubic centimeter ("g/cm3"). BDASIA considers that the average bulk density adopted is reasonable and appropriate based on the mineral composition of the deposit.

6.0 MINERAL RESOURCES AND ORE RESERVES

6.1 Mineral Resource/Ore Reserve Classification System

The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia in September 1999 and revised in December 2004 ("the JORC Code") is a mineral resource/ore reserve classification system which has been widely used and is internationally recognized. It has also been used previously in independent technical reports for mineral resource and ore reserve statements for other Chinese public companies reporting to SEHK. The JORC Code is used by BDASIA to report the mineral resources and ore reserves of the Damajianshan Mine in this report.

A Mineral Resource is defined in the JORC Code as an identified in-situ mineral occurrence from which valuable or useful minerals may be recovered. Mineral Resources are classified as Measured, Indicated or Inferred according to the degree of confidence in the estimate:

- a Measured Resource is one which has been intersected and tested by drill holes or other sampling procedures at locations which are close enough to confirm continuity and where geoscientific data are reliably known;

- an Indicated Resource is one which has been sampled by drill holes or other sampling procedures at locations too widely spaced to ensure continuity, but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable level of reliability; and

- an Inferred Resource is one where geoscientific evidence from drill holes or other sampling procedures is such that continuity cannot be predicted with confidence and where geoscientific data may not be known with a reasonable level of reliability.

An Ore Reserve is defined in the JORC Code as that part of a Measured or Indicated Resource which could be mined and from which valuable or useful minerals could be recovered economically under conditions reasonably assumed at the time of reporting. Ore reserve figures incorporate mining dilution and allow for mining losses, and are based on an appropriate level of mine planning, mine design and scheduling. Proved and Probable Ore Reserves are based on Measured and Indicated Mineral Resources respectively. Under the JORC Code, Inferred Mineral Resources are deemed to be too poorly delineated to be transferred into an ore reserve category, and therefore no equivalent Possible Ore Reserve category is recognized or used.

The general relationships between exploration results, mineral resources and ore reserves under the JORC Code are summarized in Figure 6.1.

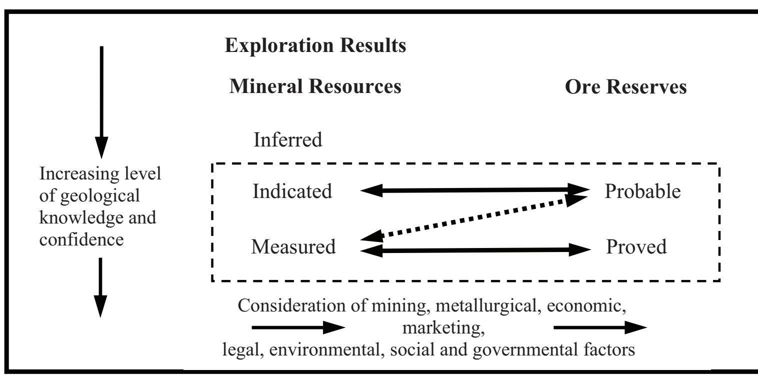

Figure 6.1 Schematic Mineral Resources and Their Conversion to Ore Reserves

Generally ore reserves are quoted as comprising part of the total mineral resource body rather than the mineral resources being additional to the ore reserves quoted. The JORC Code allows for either procedure, provided the system adopted is clearly specified. In this BDASIA report, all the ore reserves are included within the mineral resource statements.

6.2 General Procedure and Parameters for Mineral Resource Estimation

The methods used to estimate mineral resources and the parameters used to categorize the mineral resources for a particular type of mineral deposit are generally prescribed by the relevant Chinese government authorities. The mineral resource estimates are based on strictly defined parameters, which include minimum grades, minimum thicknesses, and cutting procedures for high grades. The mineral resources for a deposit can be estimated by the mine geologists and engineers or by an independent engineering entity.

In order to provide a reliable mineral resource base for the Acquisition, Luchun Xingtai has retained Kunming University of Science and Technology, an independent government-owned entity with a valid exploration license in China, to conduct an independent mineral resource estimation in 2007 for the Damajianshan deposit reviewed in this BDASIA report. KUST's address is 68 Wenchang Road, The 121 Avenue, Kunming City, Yunnan Province. KUST's mineral resource estimates for the Damajianshan deposit were dated July 31, 2007. As there was no production for the project since then to the end of 2007, the mineral resources for the project as of December 31, 2007 will not change from that estimated by KUST in July 2007.

The drill hole or channel sampling density required to define a certain class of mineral resource depends on the type of deposit. Based on the orebody size and complexity, a deposit is classified into certain exploration types before mineral resource estimation. The primary No.I orebody for the Damajianshan deposit comprises large tabular mineralized zones hundreds of meters in dimension with good continuity in both grade and thickness; it is categorized as exploration type I. Other smaller mineralized bodies in the deposit have been categorized as exploration type III.

For the purpose of mineral resource estimation, all surface trench and underground channel sampling data, along with other relevant geological information, were digitized into the MAPGIS System by KUST. MAPGIS is a computer software system widely used in China for preparation of plans and sections for mineral resource estimation. Sections and plans used for the 2007 mineral resource estimation were produced by the software.

The geological block method, a polygonal method on projected longitudinal sections, was used by KUST for the mineral resource estimation of the Damajianshan Mine. Based on information provided by KUST and discussions with the KUST's technical personnel, the general procedures and parameters used in the mineral resource estimation are described as follows.

6.2.1 Determination of "Deposit Industrial Parameters"

The economic parameters for mineral resource estimation are referred to as "Deposit Industrial Parameters" ("DIP") in Chinese literature or technical reports, and are normally approved by government authorities for each deposit. These parameters generally include the cutoff grades (separated into boundary cutoff grade, block cutoff grade and sometimes deposit cutoff grade), minimum mining width, and minimum waste exclusion width. The DIP used for the mineral resource estimates of the Damajianshan deposit reviewed in this report are summarized in Table 6.1.

Table 6.1
Deposit Industrial Parameters for Mineral Resource Estimation

Deposit	Metal	Cutoff Grade			Minimum Width	Minimum Waste Exclusion Width
		Boundary	Block	Deposit		
Damajianshan	Cu	0.3%	0.5%	0.7%	1 m	2 m

BDASIA has reviewed these parameters under the economic conditions assumed by Luchun Xingtai for the Damajianshan Mine and found them are in general reasonably defined.

6.2.2 Grade Capping

As copper and other metal grades in the Damajianshan deposits are quite consistent, and no significant samples with extremely high metal grades (outliers) are present. KUST believes that grade capping is unnecessary in resource estimation for the Damajianshan deposit. BDASIA concurs with KUST's conclusion.

6.2.3 Determination of Block Boundaries and Confidence Level

In the block resource estimation, the orebody is separated into a number of blocks, with each block assigned a resource confidence class based on the type and density of available geological data. For the Damajianshan resource estimation, Measured blocks were based on underground channel sampling and surface trench sampling data at a spacing of 50-m by 50-m to 100-m. Indicated category blocks were also based on underground channel sampling and surface trench sampling data, but the sample spacing was up to 100-m by 100-m. Generally, the Measured and Indicated blocks were limited to the boundary formed by the economic sampling crosscut/ trenches with no extrapolation. Inferred category blocks were defined by wider-spaced surface trench samples or extrapolating 100-m to 120-m from the defined Measured and Indicated blocks for the No.I orebody and 30-m to 40-m for other mineralized bodies. Block mineral resource classification for the No.I-1 orebody on the longitudinal section is illustrated in Figure 6.2.

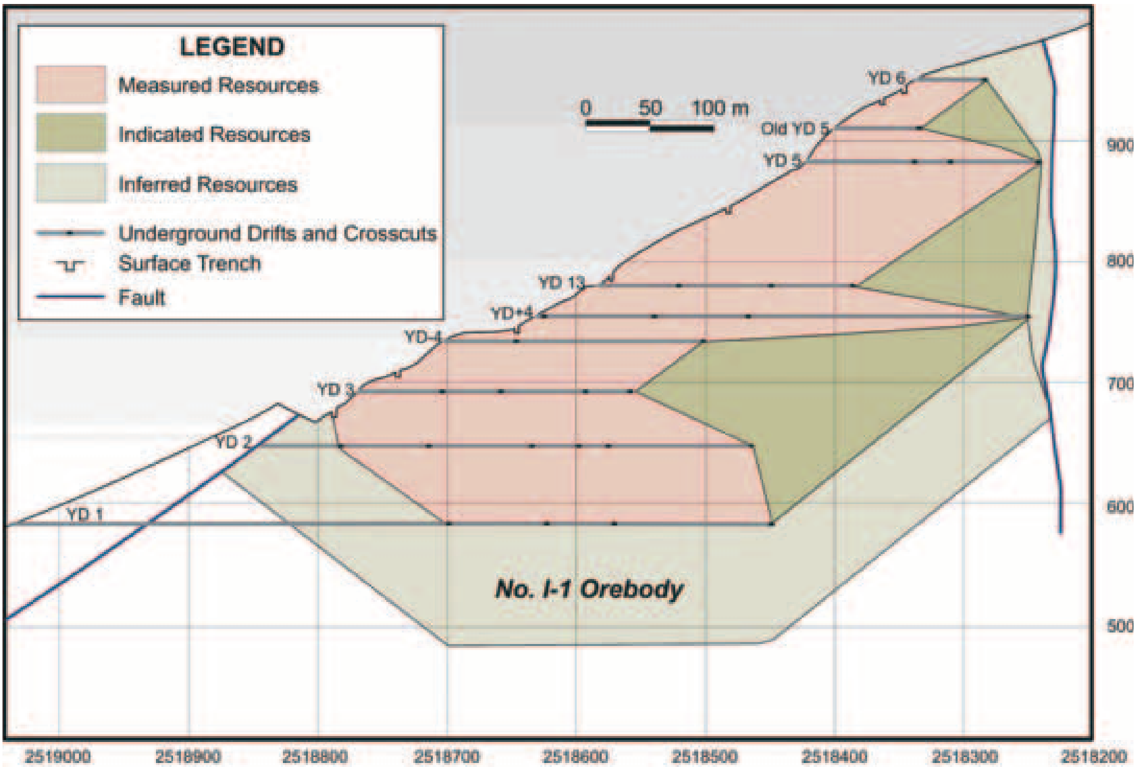

Figure 6.2 Block Mineral Resource Classification for the No.I-1 Orebody

6.2.4 Mineral Resource Estimation

In the resource estimation process, the average channel sample metal grades were calculated using the length-weighted average of all the channel samples within the orebody intersection. The block average metal grade was calculated using the horizontal width weighted average of all drill channel intersections inside the block. The orebody metal grade was calculated using the tonnage weighted average of all blocks inside the orebody. The deposit metal grade was calculated using the tonnage weighted average of all the orebodies in the deposit.

The block horizontal width was the arithmetic average of all channels within the block. Block tonnages were calculated based on the block areas and thickness and the average bulk density. Orebody and deposit tonnages were based on the sum of the block tonnages.

6.2.5 Discussions and Recommendations

Based on our review, BDASIA considers the mineral resource estimation procedures and parameters applied by the KUST to the Damajianshan deposit to be generally reasonable and appropriate. The Measured and Indicated blocks were defined by underground channel sampling and surface trench sampling data, with a sample spacing of 50-m to 100-m, and have a high level of geological control. There is no extrapolation from data points for the Measured and Indicated category mineral resource blocks. The Inferred category blocks were defined by wider-spaced surface sampling trenches or extrapolated from existing data points.

As discussed previously, the orebody horizontal width for the current resource estimation was conservatively defined from existing underground crosscuts as these crosscuts generally have not penetrated the orebodies. When a new systematic underground development and/or drilling program is completed, the average orebody horizontal width is expected to increase significantly, which will result in a significant increase for the currently-estimated mineral resources for the deposit.

Historical production for arsenic mining from Damajianshan was not well recorded, and a total 500,000 t of ore production was estimated to the end of 2004. Mine production for copper and arsenic from 2005 to 2007 by Luchun Xingtai totals approximately 25,000 t with an average grade of 1.56% copper, 6.28% arsenic, 1.35% lead, and 43.9 g/t silver. Considering the mining dilution factors occurred during mining, these metal grades are in line with the current resource metal grades. The exact location of the historical mine production could not be determined, at least a part of the production was from underground stopes along the primary ore-control fault for the No.I orebody. To be conservative for the current resource estimation, a total of 525,000 t of resources were deducted from the current Measured mineral resources. BDASIA believes that this deduction eliminated the resource uncertainty associated with the historical mine production for the Damajianshan deposit.

Based on reviewing the drilling and sampling data, procedures and parameters used for the estimation of mineral resources, BDASIA is of the opinion that the Measured, Indicated and Inferred mineral resources estimated under the 1999 Chinese mineral resource system for the Damajianshan deposit by KUST also conform to the equivalent JORC mineral resource categories. The economic portion of the Measured and Indicated resources can be used to estimate Proved and Probable ore reserves, respectively.

BDASIA recommends that Luchun Xingtai undertake a new systematic exploration program for the No.I orebody as soon as possible to define the hangingwall and footwall, the nature of ore-waste contacts and the grade distribution together with structural and geotechnical information of the mineralized zones. The exploration can be conducted by underground development and/or underground drilling at an initial spacing of approximately 100 m by 100 m. Results of this new exploration work will allow detailed mine design and planning..

6.3 Mineral Resource Statement

The mineral resource estimates under the JORC Code as of December 31, 2007 for the Damajianshan deposit in Luchun, Yunnan, as reviewed by BDASIA, are summarized in Table 6.2. The mineral resources estimated by KUST were dated July 31, 2007. As there was no mine production from July to December in 2007, the mineral resources as of December 31, 2007 do not change from that of July 31, 2007. The mineral resource estimates are inclusive of mineralization comprising the ore reserves.

Table 6.2
Damajianshan Mine Mineral Resource Summary — December 31, 2007

JORC Mineral Resource Category	Tonnage (kiloton) ("kt")	Grades						Contained Metals					
		Cu %	As %	Pb %	Zn %	Bi %	Ag g/t	Cu kt	As kt	Pb kt	Zn kt	Bi kt	Ag t
Measured	4,652	1.79	6.83	1.54	0.37	0.24	51.1	83.1	318	71.6	17.1	10.9	237
Indicated	3,153	1.70	7.52	1.79	0.52	0.25	57.4	53.5	237	56.4	16.5	8.0	181
Subtotal	**7,805**	**1.75**	**7.11**	**1.64**	**0.43**	**0.24**	**53.6**	**136.5**	**555**	**128.0**	**33.6**	**18.9**	**418**
Inferred	7,678	1.61	6.48	2.18	0.48	0.24	63.1	123.9	498	167.2	36.9	18.3	484
Total	**15,483**	**1.68**	**6.80**	**1.91**	**0.46**	**0.24**	**58.3**	**260.4**	**1,053**	**295.2**	**70.5**	**37.2**	**903**

6.4 Procedure and Parameters for Ore Reserve Estimation

Ore reserves comprise that portion of the Measured and Indicated mineral resource that is planned to be mined economically and delivered to the mill for processing. In line with most Chinese mining companies, Luchun Xingtai does not traditionally produce an external ore reserve statement, rather this is an exercise which is carried out by the mining teams in order to produce short-and medium-term mine plans and production schedules. However, given the requirements for the Acquisition, BDASIA has formalized Luchun Xingtai's mine production planning processes and estimated an ore reserve for the Damajianshan Mine. These ore reserve estimates have been produced from the in-situ mineral resource estimates based on the economic Measured and Indicated resource categories from which a mine plan has been generated.

For the purpose of converting the economic Measured and Indicated mineral resources to ore reserves, the overall mining dilution factor and mining recovery factor between the in-situ mineral resources and the ore delivered to the mill for processing have to be determined as converting factors. An overall mining dilution factor of 16.50% under the Chinese definition and a mining recovery factor of 83.42% were determined by the Xian Institute for the Damajianshan Mine based on the orebody characteristics and selected mining methods. No historical production data are available to validate these factors. It was assumed that the dilution waste has a zero metal grade when applying the mining dilution factor and mining recovery factor to the ore reserve estimation.

It should be noted that the definition of the mining dilution factor in China is different from that in most Western countries. The mining dilution factor in China is defined as the ratio of the waste tonnage in the mill feed to the total mill feed tonnage, but the mining dilution factor in the West is defined as the ratio of the waste tonnage in the mill feed to the ore tonnage in the mill feed. Therefore, when using the same data for calculation, the Western mining dilution factor is always higher than the Chinese mining dilution factor, with the difference getting larger when the dilution factor is higher. For example, the Chinese mining dilution factor of 5.00% is equivalent to a Western mining dilution factor of 5.26%, and the Chinese mining dilution factor of 16.50% is equivalent to a Western mining dilution factor of 19.76%. As the JORC Code is used for mineral resource/ore reserve reporting for this BDASIA report, the Western definition of the mining dilution factor is used throughout this report.

BDASIA considers that the mining dilution factor and mining recovery factor selected by the Xian Institute generally reasonable at this planning stage and will use them to convert the economic Measured and Indicated mineral resources into Proved and Probable ore reserves. The Chinese dilution factor of 16.50% has been converted to a JORC dilution factor of 19.76% in ore reserve estimation.

The mine design loss has been reflected in the overall mining recovery factors. The Proved ore reserves are estimated from the economic Measured mineral resources, and the Probable ore reserves are estimated from the economic Indicated mineral resources.

BDASIA recommends that Luchun Xingtai monitor the actual mining dilution factor and mining recovery factors carefully when the mine is in full production, and use the actually achieved mining dilution factors and mining recovery factors in future ore reserve updates.

6.5 Ore Reserve Statement

The ore reserve statement as of December 31, 2007 generated by BDASIA for the Damajianshan Mine is summarized in Table 6.3. The ore reserve estimates include both Proved and Probable ore reserves, and the Probable ore reserves are estimated for the long-term future of the Damajianshan Mine. The Proved and Probable ore reserves have been estimated from the Measured and Indicated mineral resources respectively.

Table 6.3
Damajianshan Mine Ore Reserve Summary – December 31, 2007

JORC Ore Reserve Category	Tonnage (kt)	Grades				Contained Metals			
		Cu %	As %	Pb %	Ag g/t	Cu kt	As kt	Pb kt	Ag t
Proved	4,648	1.49	5.70	1.28	42.6	69.3	265	59.7	198c
Probable	3,150	1.42	6.28	1.49	47.9	44.6	198	47.1	151
Total	**7,798**	**1.46**	**5.94**	**1.37**	**44.8**	**113.9**	**463**	**106.8**	**349**

6.6 Mine Life Analysis

BDASIA has conducted a mine life analysis for the Damajianshan Mine reviewed in this study based on the December 31, 2007 ore reserve estimates and the anticipated 2009 production rate (Table 6.4). It can be seen that the existing ore reserves are sufficient to support production at the anticipated 2009 production level for 18.2 years. This ore reserve mine life may change significantly in the future due to the following reasons:

- Additional exploration and development of the mine could convert some of the Inferred mineral resources to Measured and Indicated mineral resources, which in turn might be converted to Proved and Probable ore reserves. These new ore reserves will increase the mine life;

- Additional exploration may also find additional mineral resources within the mining license areas. Some of these additional mineral resources might be converted to ore reserves, which will extend the mine life; and

- Changes in the production rate will also change the mine life. The mine life will be shortened if the production rate is increased to a level higher than the anticipated 2009 production level.

Table 6.4
Mine Life Analysis

Mine	2009 Production Rate (Mtpa)	Ore Reserve Mine Life		Additional Resource Mine Life	
		Ore Reserve (Mt)	Mine Life (a)	Additional Resource (Mt)	Mine Life (a)
Damajianshan	0.429	7.798	18.2	7.80	9 – 18

Note: Additional resource mine life is estimated based on extracting 50-100% of the mineable portion of the additional mineral resources.

6.7 Exploration Potential

BDASIA believes that significant additional exploration potential exists for the Damajianshan deposit because of the following reasons:

- The ore zone horizontal width for the No.I and No.VIII orebodies in the current resource estimation was conservatively measured as most of the sampling underground crosscuts do not penetrate the ore zones. Additional drifting and/or drilling are expected to increase the orebody horizontal width significantly, and therefore, increase the mineral resource significantly;

- The ore zones for the No.I and No.VIII orebodies are defined by both underground development and surface trenches. The orebodies are still open to the depth and along strike;

- The nine other mineralized bodies in the deposit were only defined by limited surface trenches. Further exploration to depth and along strike should increase mineral resources; and

- Additional mineralization could also be found outside the 11 identified mineralized bodies in the deposit.

7.0 MINING

The Damajianshan Mine is an underground operation currently undergoing a production capacity expansion from 300 tpd to 1,300 tpd or 429,000 tpa. Mine production was suspended at the end of the first quarter 2007 for the planned expansion. Luchun Xingtai retained Xian Nonferrous Metallurgical Engineering and Research Institute to carry out a feasibility study for the expansion. The mine design in the feasibility study is based on current Chinese practice and current understanding of the mineralization system. In BDASIA's opinion, it can only be considered conceptual due to uncertainties with the geometry of the orebodies to be mined and lack of geotechnical information. While this is considered a limitation, examination of the existing geological data together with an underground inspection of the exposed ore occurences indicates that the assumptions contained in the feasibility study report are generally reasonable.

7.1 Orebodies to be Mined

The current mine plan produced by the Xian Institute will only mine the Measured and Indicated mineral resources in the largest No.I and No.VIII orebodies in the Damajianshan deposit. The No.I orebody is a large tabular zone consisting of mineralization controlled by a north-northwest-striking fault. The fault zone is steeply dipping to the northeast at an angle of 48° to 87° and is filled by 1 to 6 m of massive quartz-sulfide veins and surrounded by strongly silicified and mineralized slates. The orebody extends from an elevation of 580 m to 1,170 m at the surface and is offset by a post-mineral fault into two sub-orebodies.

The No.I-1 orebody is the largest ore zone identified to date in the Damajianshan deposit and contains approximately 85% of the currently defined Measured and Indicated mineral resources to be mined. The orebody is approximately 700 m long at the surface, extending at the surface from the elevation of 580 m to 960 m. As discussed previously, its controlled horizontal width from underground crosscuts and surface trenches ranges from less than 10 m to over 70 m with a stated average of 21.5 m. The true width of the orebody, however, is unknown as the sampling crosscuts generally failed to intersect the hanging wall or footwall.

The No.I-2 orebody is not currently well defined. It contains only about 1% of the Measured and Indicated mineral resources to be mined. It is approximately 500 m long with an average controlled width of 4.6 m, extending from an elevation of 960 m to 1,170 m at the surface. As in the case of the No.I-1 orebody the true width of the orebody is unknown but could be much larger as the crosscuts generally did not penetrate the ore zone.

The No.VIII orebody contains about 14% of the defined Measured and Indicated mineral resources and is located about 200 m west of the No.I orebody. The orebody is 227 m long along strike and averagely 24.0 m wide. It is only defined by two surface trenches and two underground levels currently and is open in almost all directions.

7.2 Mining System

Mine access together with ore and waste transportation is by adits connected with ore passes, waste passes, ventilation raises and sub-level access ramps. Each adit will provide access to a haulage drift driven in the footwall and connected to the raises on each level. The ore and waste passes will be equipped with vibrating feeders to load the haulage cars for transfer of the ore and waste to surface. Currently the adits are not connected. Production above the 650-m level (YD2, which is at the mill elevation), will be transferred through ore passes to that level for haulage to the mill's coarse ore bin, a distance of approximately 200 m beyond the adit entrance. Production from mining areas at levels below YD2 will be transported to the respective adit entrance and hoisted, via an exterior inclined rope haulage way, to the mill's coarse ore storage. Track haulage is employed on the YD2 adit utilizing 50-pound rail on concrete ties. Ore and waste passes will be equipped with vibrating feeders for loading 1.2-cubic meter ("m^3") side tipping mine cars hauled by 7-t electric locomotives. A total of seven locomotives will be required. Waste from mine development will be dumped into the existing tailings area. Ventilation raises connected to each level and sub-level will provide adequate ventilation for all working levels.

The host rock for the orebodies is generally sericitic slates exhibiting some phyllic alteration. Ground conditions were reported to be generally good throughout the mining area except in the immediate vicinity of the main fault which appeared to be in the middle of the defined ore zone. No geotechnical data was available, therefore this statement is purely based on limited observation underground as no visible ground support was seen in areas that had been open for a number of years from the previous arsenic and copper-arsenic mining activities or in crosscuts driven in recent years to delineate the ore zones. There was no indication of high inherent stress levels in the underground drifts visited. The main haulages will be supported with shotcrete and additional mechanical support as dictated by the local conditions.

Ground water is not expected to be significant, however, during the wet season considerable amounts of water would ingress through any stopes which were open to surface together with seepage through faults. No large quantities of ground water have been intersected to date and there is no increase in water with depth. Therefore, it would appear that the water flow is seasonal and can be adequately drained through the adits without pumping and collected in the mill process water system or tailings pond for treatment and recycling.

7.3 Mining Methods

Sub-level stoping, with and without pillars, has been considered as the mining method for the No.I-1 orebody based on currently assumed dimensions. The Xian Institute considered this method to be sub-level caving; however, when reviewed in detail, the caving refers to the waste rock and not to the ore. Therefore, BDASIA believes that the correct terminology is sublevel retreat mining. The Xian Institute believes that due to the good ground conditions and high production rate, mining with pillars was not necessary. However, it has recognized that a lower ore recovery of only 83%, a higher dilution factor of 19.8%, and difficult ventilation conditions would result. BDASIA is of the opinion that this approach is adequate but the dilution could be slightly higher than expected by the Xian Institute. Sublevel mining with pillars would be preferable when mining widths average over 20 m with a competent hanging wall. Should the ore width increase to +30 m the mining would be changed to transverse, which would necessitate rib pillars. Therefore, until the true width has been determined the detailed mining method cannot be finalized. With the current planning concept and the incorporation of pillars, the sublevel interval could be increased to 12.5-m or more for a 50-m stope height compared to the current layout of 10-m sublevels, resulting in more tonnes per meter of development. This would maximize ore recovery (+90%) and lower dilution (to possibly 12.5%) at a slightly higher cost due to an estimated 20% increase in development. It is understood that larger than currently planned drilling equipment is available in China, therefore, increasing the sublevel interval and utilizing longer/larger blast holes is possible.

Notwithstanding the foregoing, the current production forecast is based on mining without pillars. To facilitate mining in this zone it is essential that the ore boundaries be accurately defined to enable a higher degree of mine planning. Current planning is to utilize 65-mm upholes, retreating from the hanging wall. Mucking on each sublevel is planned with 2.0-m^3 electric load-haul-dump ("LHD") machines to transfer ore from the sublevel drawpoints to the ore pass. The planned development will create stopes 50-m in height with access provided from each haulage level. Sublevels are planned at 10-m intervals with a ramp access to the adits and connected to the ore, waste and ventilation raises. From each sublevel a slot raise is driven to the sublevel or main level above. Main haulage ways are planned at a size of 3.0-m×4.0-m, sublevels and stope drifts at 3.0-m×2.0-m, ore passes and waste passes are at a diameter of 3.0 m and 2.0 m, respectively.

It is proposed to employ overhand flat back shrinkage stoping for the No.I-2 orebody due to the narrow projected width to provide flexibility as the ore contacts are not clearly defined as noted in the No.I-1 orebody. More accurate delineation of the contacts is essential to improve the mine planning. With the current indicated width of 4.6 m, this zone could also be mined with a sublevel long-hole mining method and definitely so if the true width is greater than currently assumed. The current stope planning involves 50-m high stopes as per the sublevel open stopes and 50 m on strike. The resulting crown pillar is 3-m thick, the sill pillar 5 m and the rib pillars 6-7 m. Drilling will utilize both jacklegs and stopers taking a 2-m lift. Sufficient ore is drawn after each blast to maintain the correct working elevation within the stope. This is an acceptable approach to mining steeply dipping narrow ore zones.

7.4 Mine Production and Development Rates

Based on the currently indicated tonnes per vertical meter, a mining rate in the order of 600,000 tpa should be sustainable provided that the necessary development work is completed. The proposed production rate of 1,300 tpd is therefore considered achievable. Given that the current ore outlines appear to understate the reserve as the exploration crosscuts did not intersect the hangingwall and footwall contacts, the potential for a further increase in production rate is not unreasonable.

Prior to the commencement of production at the planned rate of 1,300 tpd at the end of 2008, it is planned that three stopes will be developed and a further two under development. This will involve the completion of approximately 6,000 m of development (2 years with four development crews). The annual development requirement after that is 9,230 m, comprising 1,804 m of access development, 2,706 m of exploration development, 3,512 m of stope preparation and 1,208 m of ramp development.

The forecast mine development and production for 2009 to 2011 is shown in Table 7.1. The development rates are considered reasonable given the planned manpower and the number of working areas available.

Table 7.1
Forecast Mine Development and Production, 2009-2011

	Forecast		
	2009	**2010**	**2011**
Development (m)	9,230	9,230	9,230
Production (kt)	429.0	429.0	429.0

Mine development is undertaken with hand-held air-operated equipment with mucking carried out with electric track mounted rocker shovels. Ramp development and production mucking will be carried out with trackless equipment. Development dimensions are adequate to satisfy the ventilation requirements.

7.5 Recommendations

In the previous sections, BDASIA has recommended conducting a new phase of exploration work for the No.I orebody as soon as possible to better define the geometry of the mineralized zone as well as its grade distribution, structural and geotechnical information. When this exploration work is completed, a new mine design and detailed mine planning should be conducted. Appropriate mining methods and production rate will be selected based on the new data for this orebody. BDASIA believes that Luchun Xingtai should postpone the currently planned 1,300-tpd startup and restart the mine development when the new ore outlining exploration work has been completed and the mine design updated in accordance with the new reserves . This will delay the initial mine production, but the mine will be more profitable in the long run.

8.0 METALLURGY AND PROCESSING

The concentrator feed for the Damajianshan Mine will mostly come from the No.I-1 orebody under the current feasibility study. The minerals of economic importance are copper, lead and arsenic sulfides. This ore was treated previously, on a limited scale, in a 300-tpd flotation plant in 2005, 2006 and 2007. The processing rate in 2009 is planned to reach 1,300 tpd once the additional concentrating and tailings disposal facilities are completed. Flotation will remain the concentration process of choice.

8.1 Testwork

Comprehensive laboratory testwork on the ore was conducted by the Research and Design Institute of Yunnan Tin Group Company Limited and reported in "Test Report on Mineral Separation of Luchun Copper, Lead, Arsenic and Bismuth Polymetallic Sulfide Deposit" dated May 2005. This report discussed the sample tested, the testwork conducted and test results, which are all summarized below.

8.1.1 Sample

The sample used in the testwork appears to have been taken from the development ore. The sample preparation was conventional: crushing, screening, blending and splitting into required test changes. The latter were used for various analyses as well as grinding and concentration tests.

The semi-quantitative spectrographic analysis of the sample revealed the presence of arsenic, aluminum, iron, silica, copper and calcium (all above 1%), followed by manganese (0.8%), magnesium, lead and titanium (all 0.5%). Small quantities of bismuth, tin and zinc (all 0.05%), as well as beryllium (both 0.001%) were also detected.

The quantitative chemical analysis established the presence of the following values: 1.58% Cu, 0.85% Pb, 0.083% Zn, 0.139% Bi, 8.83% Fe, 5.39% As, 6.24% S, 0.275% CaO, 0.569% MgO, 61.44% SiO_2, 8.57% Al_2O_3, 0.068% Sn, 36.9 g/t Ag and less than 0.2 g/t Au.

The mineralogical composition analysis of the ore established the presence of twenty-nine minerals, of which nineteen were metal and ten were gangue minerals. Copper minerals are mainly chalcopyrite and cubanite with small amount of covellite, tennantite and malachite. Lead minerals are mainly galena, anglesite, and cerussite with small amounts of lead arsenates. The arsenic mineral is mainly arsenopyrite along with small amounts of arsenates. The bismuth mineral is bismuthinite. Iron minerals are mainly pyrite, pyrrhotite and limonite. Gangue minerals are quartz, feldspar and chlorite.

Close to 83% of the copper occurs as chalcopyrite with minor covellite, both readily recoverable by flotation. The remaining copper occurs as malachite and tennantite, or as sulfide inclusions (which cannot be floated) in quartz or as inclusions in arsenopyrite and pyrite (which downgrade copper concentrates). Chalcopyrite grains are generally between 0.01 and 0.15 mm. The minimum size is below 0.0001 mm. It may be locked, to a smaller degree, with arsenopyrite, quartz and chlorite and with galena and bismuthinite. A covellite film often covers the chalcopyrite surface.

Arsenic is mainly present as arsenopyrite (over 97%); its arsenic content is close to 40%. It has a copper content of about 0.1%. The arsenopyrite grain size is between 0.01 and 0.15 mm. It may be locked, to a smaller degree, with other sulfides and quartz and chlorite.

Lead mineral occurrence is complicated from the processing point of view. The lead minerals include galena (floatable sulfide), anglesite and cerussite (lead sulfate and lead carbonate which require a complex flotation regime hardly applicable and economical in this case) and arsenate (undesirable due to arsenic impurity). Galena usually contains small inclusions of silver, bismuth and antimony. The galena grain size is generally 0.009 to 0.13 mm. The lead present as galena accounts for 39% of the total lead and it should be noted that only this lead mineral could be economically processed and recovered in the plant under construction.

Bismuth occurs as bismuthinite. Its common grain size is from 0.005 to 0.074 mm, and its shape is acicular and/or columnar. It may be found free or with quartz, chlorite, pyrite, arsenopyrite and chalcopyrite

8.1.2 Testwork and Results

Several approaches for concentration of copper, lead, silver and arsenic were evaluated, including various bulk flotation procedures followed by separation of the bulk concentrate components into individual concentrates, combined gravity concentration and flotation, and selective flotation. Evaluation of the above approaches along with changes in fineness of grinding and reagent regimes showed that the most advantageous concentration method was the bulk flotation of copper, lead and silver followed by arsenopyrite flotation. This approach yields copper/lead/silver rougher bulk concentrate, arsenic rougher concentrate and final tail. After several cleanings, the copper/lead/silver rougher bulk concentrate is subjected to copper and lead separation. The arsenic concentrate is cleaned several times until the required purity is obtained. The tail from the arsenic flotation is disposed in a tailings pond. The optimum grinding was determined to be 80% less than 0.074 mm. The reagents were conventional and readily available.

The flotation results obtained in the closed circuit laboratory test showed that copper concentrate contained 25.66% Cu, 2.054% As, 5.93% Pb, 1.35% Bi, 463.3 g/t Ag and 0.50 g/t Au, while recoveries (distributions) of the relevant metals were 82.00% Cu, 1.28% As, 37.15% Pb and 22.84% Bi.

Arsenic concentrate contained 0.558% Cu, 26.56% As, 1.446% Pb and 0.395% Bi. These same metals were distributed in the concentrate at 11.59%, 82.97%, 36.71% and 45.04%, respectively.

8.1.3 Discussion of Testwork Results

The two aspects of the copper concentrate i.e. high arsenic content (2.05%) and low lead distribution (37.15%) are noted. Both are related to the nature of the ore in the deposit.

Regarding the arsenic, the mineralogical analysis discussed earlier demonstrated that chalcopyrite and arsenopyrite are, in some cases, finely dispersed and locked in each other. The grinding which would be required to liberate these two minerals from each other and thus reduce arsenic in the copper concentrate would have to be so fine so that it would gravely affect the efficiency of flotation and result in low metal recoveries. Therefore, a sharp separation of copper and arsenic in industrial practice cannot be expected.

The high arsenic content of the copper concentrates produced from the Damajianshan Mine is of concern to BDASIA as it could impact the salability and sale price of the copper concentrates. Based on the current concentrate sale contract, there will be a price deduction if the arsenic content is from 0.3 to 2.0% in the copper concentrates and the copper concentrate will be rejected if the arsenic content is higher than 2%. Luchun Xingtai has presented data for the arsenic contents of the copper concentrates produced by the 300-tpd mill. They generally range from 1.2 to 1.6%, which are within the saleable range. BDASIA believes that it is very important for Luchun Xingtai to closely monitor the arsenic content in the copper concentrates produced by the new 1,000 tpd mill and control them at the current or a lower level.

Regarding low lead distribution it is noted that only about 39% of the total lead present in the ore is in galena (readily floatable sulfide) while other lead minerals (sulfate, carbonate, arsenate) cannot, in this case, be economically recovered. Therefore, when the lead and copper are separated, less than 40% of the total lead present can be expected to find its way into the lead concentrate. The most likely lead recovery to the lead concentrate in an industrial process will be in the 33-36% range.

If the future ore is the same or similar to that represented by the testwork sample, it cannot be realistically expected that results better than those obtained in the laboratory locked-cycle test can be industrially obtained unless an additional and suitable process and flotation section are incorporated in the design. It is recommended that more testwork on a fully representative sample should be performed in order to settle the issue of copper and lead recoveries.

8.2 Processing

The flotation processing of this ore type is well understood and employed worldwide. Generally, it consists of crushing and grinding to the necessary fineness and the flotation of copper sulfides followed by arsenopyrite flotation. In the case of the Damajianshan ore the lead, bismuth and silver minerals will report in the copper concentrate. They may be separated from the copper if desired. The arsenopyrite, pyrite, etc. are depressed during copper flotation step. In the following stage, the arsenopyrite is activated and floated into a separate concentrate.

8.2.1 Process and Flowsheet

The copper, lead, silver and arsenic concentration process, designed based on the described testwork, comprises:

- Crushing (open circuit) of the run-of-the-mine ore in a 600-mm× 900-mm jaw crusher;
- Screening of the jaw crusher product on a vibrating screen at 12 mm;
- Crushing (closed circuit) the +12 mm screen product in a H3800 hydrocone crusher;
- Grinding, in a closed circuit with double screw classifiers, of the – 12 mm screen product (in MQG 2,700×4,000) to 80% -0.074 mm;

- Conditioning of the ground product prior to copper-lead bulk flotation;

- Bulk flotation of copper, lead, bismuth and silver minerals;

- Cleaning the bulk flotation concentrate and scavenging the bulk flotation tails;

- Flotation separation of copper and lead values from the third bulk cleaner concentrate into separate concentrates of copper and lead. Part of silver and bismuth report with the lead;

- Rougher flotation of arsenopyrite from the copper-lead bulk flotation tails;

- Cleaning of arsenopyrite rougher flotation concentrate to produce the final arsenic concentrate; and

- Dewatering of separate copper, lead and arsenic concentrates in individual settling tanks.

The process flowsheet is schematically presented in Figure 8.1. It is noted that all equipment, except the hydrocone crusher, is designed and made in China. The flotation reagents are conventional and readily available. The flotation reagents (and their consumption in g/t) are as follows: calcium oxide (6,000), calcium hypochlorite (2,800), copper sulfate (56), ammonium chloride (756), sodium carbonate (756), sodium ethyl xanthate (33.6), ammonium butyl xanthate (44.8), a dithiophosphate (33.6), sodium methyl glycolate (252), sodium sulfide (200-400), zinc sulfate (4,000) and sodium silicate (300).

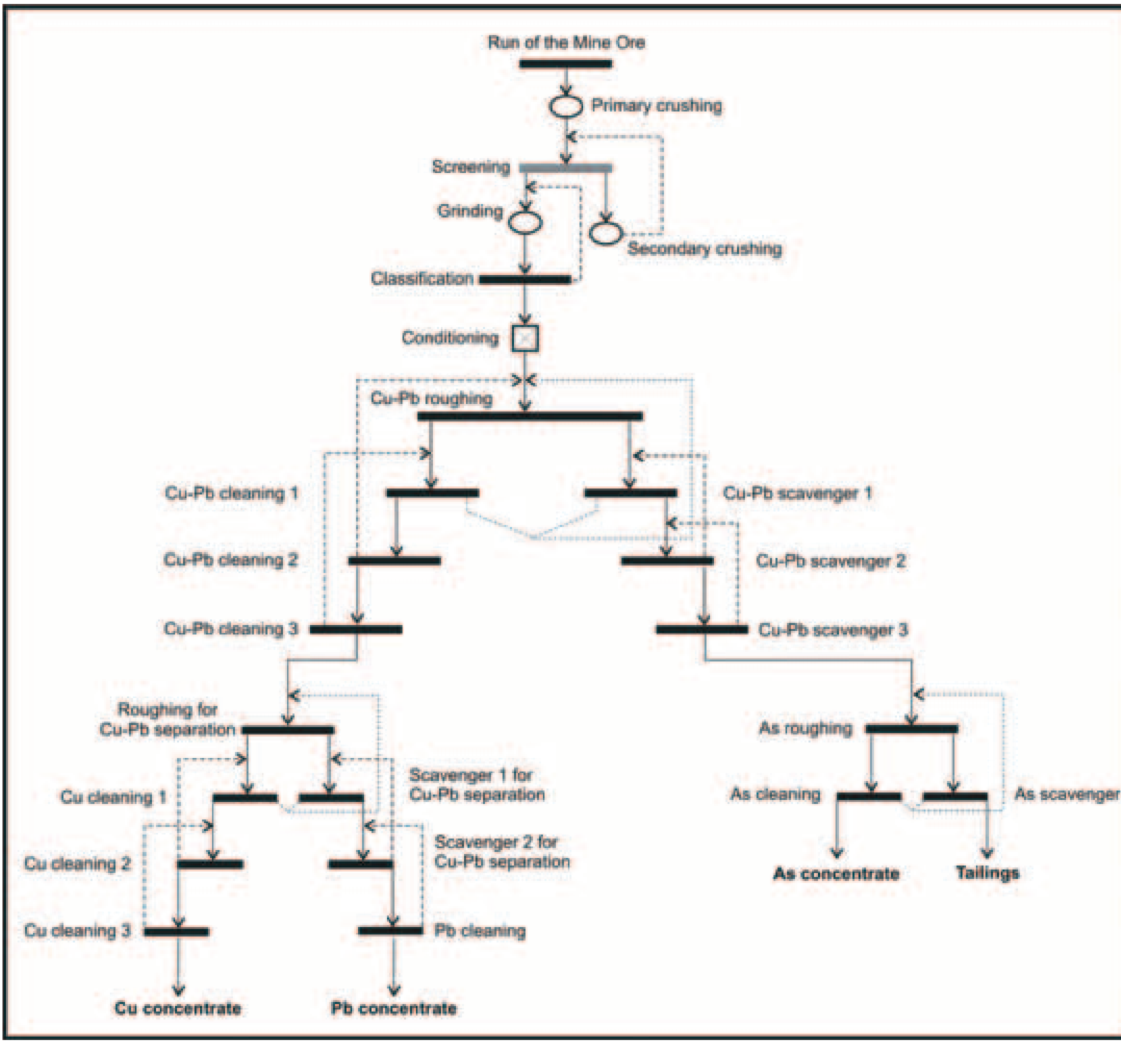

Figure 8.1 Ore Processing Flowsheet for the Damajianshan Mine

8.2.2 Discussions and Recommendations

The process is well chosen and it is believed that when fine-tuned, it could yield the results that would be optimum for this ore type. The fine-tuning (reagent adjustment, flow modifications) can take place in the course of the production.

One feature of the flowsheet, in BDASIA's opinion, requires further consideration, namely the settling tanks for the three individual concentrates. BDASIA is concerned that the settling tanks will not perform satisfactorily and that, perhaps, significant metal losses could occur in the settling tanks' overflows as well as in handling (spillage, etc.) and transfer of the concentrates. Consideration should be given to drum or disc filters to dewater the concentrates.

9.0 PRODUCTION

Forecast concentrator production for the Damajianshan Mine based on the Xian Institute feasibility study for the 2009-2011 period is summarized in Table 9.1. This forecast is based on the expectation that full production capacity of 1,300 tpd will be reached at the end of 2008. The forecast mill feed grade varies between 1.40% and 1.76% for copper, 0.99% and 1.17% for lead and 5.76% and 6.29% for arsenic in different years reflecting the grade distribution in the deposit. The forecast mill recoveries for copper, lead, and arsenic for the period are 82%, 35% and 75%, respectively, which is in line with the metallurgical tests discussed in the previous section. The reports by Luchun Xingtai showing that the actual overall mill recovery from 2005 to 2007 in the 300-tpd plant was 82% for copper and 70% for arsenic also provide support for the forecast mill recoveries.

Table 9.1
Forecast Production for the Damajianshan Mine, 2009-2011

	Forecast		
	2009	**2010**	**2011**
Milled Ore			
Tonnage (kt)	429	429	429
Cu Grade (%)	1.76	1.40	1.40
Pb Grade (%)	0.99	1.17	1.17
As Grade (%)	6.29	5,76	5,76
Cu Metal (t)	7,560	6,020	6,020
Pb Metal (t)	4,250	5,040	5,040
As Non-metal (t)	27,000	24,700	24,700
Mill Recovery			
Cu (%)	82%	82%	82%
Pb (%)	35%	35%	35%
As (%)	75%	75%	75%
Final Products			
Copper Concentrate (t)	24,780	19,730	19,730
Cu Grade (%)	25%	25%	25%
Cu Metal (t)	6,200	4,930	4,930
Lead Concentrate (t)	3,310	3,920	3,920
Pb Grade (%)	45%	45%	45%
Pb Metal (t)	1,490	1,760	1,760
Arsenic Concentrate (t)	67,410	61,800	61,80
As Grade (%)	30%	30%	30%
As Non-metal (t)	20,220	18,540	18,540

Three concentrates will be produced from the mine: copper, lead and arsenic. The copper concentrate grade is forecast at 25% Cu, the lead concentrate grade 45% Pb, and the arsenic concentrate 30% As. They are all in the range indicated by the metallurgical test work. Total copper production in the copper concentrates will be 6,200 t in 2009 and 4,930 t in 2010 and 2011, reflecting the higher grade ore processed by the mill in 2009. Forecast lead production in lead concentrate is 1,490 t in 2009 and 1,760 t in 2010 and 2011, and forecast arsenic production in arsenic concentrate is 20,220 t in 2009 and 18,540 t in 2010 and 2011.

BDASIA believes that the forecast production is generally achievable for the current 1,300 tpd plan. However, BDASIA has recommended that Luchun Xingtai carry out additional resource definition exploration work for the No.1 orebody as soon as possible and redesign the mine based on the findings of this exploration work. This will likely result in a delay in initial production of the project, but the mine production rate will likely be higher and the mine will be more profitable.

10.0 OPERATING COSTS

Based on information in Xian Institute's feasibility study, BDASIA has developed forecast unit mining, milling, G&A and other costs on a per tonne basis for ore milled from 2009, when the mine will be in full production, to 2011 for the Damajianshan Mine. BDASIA has also calculated a unit product operating cash cost and total production cost for the equivalent primary product (copper in copper concentrate) of the operation by converting all other products to equivalent primary product using the projected product sale prices as provided by Luchun Xingtai. The primary product for the operation was selected based on its economic importance.

The operating cash costs include mining costs, processing costs, G&A costs, selling costs, environmental protection costs, production taxes, resource compensation levy, interests on loans and other cash cost items. The total production costs comprise the operating cash costs, depreciation/amortization costs and other non-cash cost items. These costs are expressed in Chinese currency with a unit of RMB. For the benefit of international investors, BDASIA has converted these costs into United States dollars (US$).

Table 10.1
Forecast Unit Cost Analysis for the Damajianshan Mine, 2009-2011

Cost Item	Forecast		
	2009	**2010**	**2011**
Mining Cost (RMB/t of ore milled)	39.1	39.1	39.1
(US$/t of ore milled)	5.50	5.50	5.50
Milling Cost (RMB/t of ore milled)	82.0	83.5	83.5
(US$/t of ore milled)	11.53	11.74	11.74
G&A and Other Costs (RMB/t of ore milled)	102.1	100.3	100.3
(US$/t of ore milled)	14.35	14.11	14.11
Total Operating Cash Costs (RMB/t of ore milled)	**217.0**	**222.9**	**222.9**
(US$/t of ore milled)	**30.51**	**31.35**	**31.35**
Unit Product Operating Cash Cost*			
Equivalent Copper Metal in Concentrate (RMB/t)	**12,100**	**15,100**	**15,100**
(US$/t)	**1,700**	**2,120**	**2,120**
Unit Product Total Production Cost*			
Equivalent Copper Metal in Concentrate (RMB/t)	**13,500**	**17,000**	**17,000**
(US$/t)	**1,890**	**2,390**	**2,400**

* *In calculation of the unit product operating cash cost and total production cost, all other products have been converted to equivalent copper metal in concentrate based on the product sales prices provided by the mine.*

The total operating cash cost is forecast at RMB217.0/t (US$30.51/t) of milled ore in 2009 and RMB222.9/t (US$31.35/t) in 2010 and 2011. The mining and milling cost estimates are based on self mining and milling operations. The mining cost is forecast at RMB39.1/t (US$5.50/t) of ore milled and the milling cost at RMB217.0/t (US$11.53/t) in 2009 and RMB83.5/t (US$11.74/t) in 2010 and 2011. The G&A and other cost is forecast at RMB102.1/t (US14.35/t) in 2009 and RMB100.3/t (US$100.3/t) in 2010 and 2011. BDASIA believes that these costs reflect current Chinese cost structures for similar mining operations and therefore are considered reasonable for the presented 1,300-tpd mine plan.

Copper is the primary metal in concentrates produced from the Damajianshan Mine; lead, arsenic, and silver credit in concentrates were converted to equivalent copper metal in concentrate for cost analysis. Forecast unit operating cash costs and unit total production costs for equivalent copper metal in concentrate are shown in Table 10.1. These costs are related to the operating cash costs, the sales price ratio of the final products (metals in concentrates), and also to the average mill feed metal grades. The forecast unit total production costs for equivalent copper metal in concentrate are significantly lower than the current market price for copper metal in concentrate, indicating that Damajianshan would be a very profitable operation if the future metal prices would be consistent with the current metal prices.

The additional resource definition work recommended and the resulting changes to the mine/mill production plan will affect the forecast costs and metal production. It is the opinion of BDASIA that these changes should have a positive impact on the operating cost structure.

11.0 CAPITAL COSTS

The forecast capital costs for the Damajianshan to 2011 are shown in Table 11.1. These costs are based on Xian Institute's feasibility study for the 1,300 tpd mining project and reflect the current cost structure of the work being carried out on the site and projected future capital expenditures. BDASIA notes that construction for the new 1,000 tpd mill was nearly completed during BDASIA's site visit and it was reported by Luchun Xingtai that the actual capital cost for the expansion will be lower than estimated in the Xian Institute feasibility study. Based on Luchun Xingtai's estimate, the capital expenditure for remaining of 2008, as of 31 May 2008, will be approximately RMB18.0 million (US$2.57 million). Upon completion of the above expansion, the mine is expected to reach the designed production capacity of 1,300 tpd at the end of 2008.

Table 11.1
Forecast Capital Costs for the Damajianshan Mine, 2008-2011

	Forecast			
	Pre-2009	**2009**	**2010**	**2011**
Capital Cost in RMB x 10^3				
Mine	27,070	1,610	1,610	1,610
Mill	15,800	410	290	400
Admin	4,630	—	—	—
Tailings	16,490	15,000	—	—
Ancillary Production Facility	10,620	—	—	—
Mining License	—	14,000	14,000	14,000
Others	21,330	—	—	—
Contingency	12,400	—	—	—
Total	**108,340**	**31,020**	**15,900**	**16,000**
Capital Cost in US$ x 10^3				
Total	**15,477**	**4,431**	**2,236**	**2,250**

The additional resource definition work recommended by BDASIA together with the revised mine and mill production plan will most likely increase the production capacity of the Damajianshan Mine, and therefore, the capital cost will also likely be increased for the expanded construction.

12.0 ENVIRONMENTAL MANAGEMENT

The Damajianshan Mine is in the process of applying for the environmental permit, from the Luchun County Environment Protection Bureau ("EPB"), for mining and processing activities at a production level of 1,300 tpd. Environmental measures proposed to be implemented at the upgraded operations will comprise:

- Dust mitigation: including the use of dust collectors, exhaust fans fitted with filters, water sprays and enclosure of dust generating activity. Personal protection devices ("PPE") to provide additional personal protection from dust will be provided;

- Waste water treatment: Luchun Xingtai intends to recycle at least 80% of its waste water, the remainder being discharged from the site in accordance with regulatory requirements. Waste water (including tailings effluent and seepage) will be recycled to the process plant for use in mineral processing or will be used for dust suppression. Top up water is to be pumped to a water storage tank from the mine water and nearby springs. Sewage effluent will be treated to meet regulatory requirements and discharged to the river;

- Solid waste: some waste rock from mine development will be used for construction and civil works purposes, but it is expected that most will be stored in the new engineered waste rock dump. Tailings from the new processing plant will all be stored in a new tailings storage facility ("TSF") to be constructed this year. The new waste rock dump and TSF have been designed by the Xian Nonferrous Metallurgical Engineering and Research Institute;

- Noise control: methods of noise control include use of silencers, noise and vibration dampening and absorbing materials, and isolation and enclosure of noisy equipment. Company policy will require PPE use, such as ear muffs, for noise-affected workers;

- Environmental monitoring: Luchun Xingtai will be undertaking a schedule of regular noise, water and air quality monitoring. Monitoring results will be regularly submitted to the EPB; and

- Rehabilitation: a rehabilitation and planting program for disturbed areas will be ongoing.

Table 12.1
Tailings Storage Facility of the Damajianshan Mine

Design Capacity and Estimated life	Comments
The new TSF will be constructed to meet the requirements of the mill over a 17 year mine life, with a capacity of approximately 5.3 million cubic meters.	The TSF will be constructed in a river valley 1.2 km from the mill site, with the capacity designed to meet 17 years' tailings production requirements at a 1,300 tpd production rate. Tailings will be pumped to the TSF from the process plant at a density of 50% solids (by weight), and the supernatant water, together with collected seepage, will be returned to the process plant for recycling. The initial stage of the TSF emplacement (4-5 years production) will be designed with a 1 in 100 year flood design factor, rising to 1 in 500 years for later extensions. The initial emplacement dam height will be 40 m high and be followed by nine 10-m lifts, each separated by 5-m berms, to a total height of 130 m. A 2.5- m underdrain, connected to four 3.5-m diameter downpipes, will permanently drain the emplacement. The TSF is designed to accommodate a local seismic risk factor of 7 (on the Chinese Richter scale equivalent). The TSF will be topsoiled and grassed upon closure.

13.0 OCCUPATIONAL HEALTH AND SAFETY

Luchun Xingtai intends to implement a corporate safety policy which will incorporate national safety standards, regular health checks, and will apply to contractors as well as to company employees. A safety permit will be applied for at the appropriate time.

Luchun Xingtai intends to conduct its operations in accordance with the relevant national laws and regulations covering occupational health and safety ("OH&S") in mining, production, blasting and explosives handling, mineral processing, TSF design, environmental noise, emergency response, construction, fire protection and fire extinguishment, sanitary provision, power provision, labor and supervision.

14.0 RISK ANALYSIS

When compared with many industrial and commercial operations, mining is a relatively high risk business. Each orebody is unique. The nature of the orebody, the occurrence and grade of the ore, and its behavior during mining and processing can never be wholly predicted.

Estimations of the tonnes, grade and overall metal content of a deposit are not precise calculations but are based on interpretation and on samples from drilling or channel sampling which, even at close sample spacing, remain very small samples of the whole orebody. There is always a potential error in the projection of sampling data when estimating the tonnes and grade of the surrounding rock and significant variations may occur. Reconciliations of past production and ore reserves can confirm the reasonableness of past estimates, but cannot categorically confirm the accuracy of future predictions.

Estimations of project capital and operating costs are rarely more accurate than ±10% and will be at least ±15% for projects in the planning stages. Mining project revenues are subject to variations in metal prices and exchange rates, though some of this uncertainty can be removed with hedging programs and long-term contracts.

The Damajianshan Mine reviewed in this report is in the development stage. Development and construction are still on-going, which introduces a degree of uncertainty.

In reviewing the Damajianshan Mine, BDASIA has considered areas where there is perceived technical risk to the operation, particularly where the risk component could materially impact the projected production and resulting cashflows. The assessment is necessarily subjective and qualitative. Risk has been classified from low, moderate to high based on the following definitions:

- High Risk: the factor poses an immediate danger of a failure, which if uncorrected, will have a material effect (>15%) on the project cash flow and performance and could potentially lead to project failure.

- Moderate Risk: the factor, if uncorrected, could have a significant effect (>10%) on the project cash flow and performance unless mitigated by some corrective action.

- Low Risk: the factor, if uncorrected, will have little or no effect on project cash flow and performance.

Risk Component	Comments
Mineral Resources *Low Risk*	The primary No.I orebody for the Damajianshan deposit is a structurally-controlled, large tabular mineralized zone hundreds of meters in dimension and has relatively stable metal grade and thickness distribution. The orebody is currently defined by reasonably close-spaced underground crosscuts and surface trenches. The hangingwall and footwall of the orebody, however, are currently undefined as most of the sampling crosscuts have not penetrated the orebody. Further exploration to define the true dimension of the orebody could significantly increase the mineral resources. Other smaller mineralized bodies have only explored by limited surface trenches and underground workings and further exploration work could also significantly increase their contained mineral resources. The resource estimates follow set processes and procedures which in general have been diligently carried out. The Measured and Indicated category resources are mostly based on detailed channel sampling along underground crosscuts and surface trenches typically 50-100 m apart; there was generally no extrapolation from any data point. The Inferred category resources were also reasonably estimated by limited extrapolating from the Measured and Indicated resource blocks or based on surface trench channel sampling spaced 100 m to 200 m apart.

Risk Component	**Comments**
Ore Reserves *Low Risk*	Luchun Xingtai does not formally estimate and publish ore reserves. The Xian Institute has undertake feasibility mine design and planning work for a 1,300 tpd operation, and has selected reasonable mining recovery factor and mining loss factor based on the orebody geometry and mining methods to be employed. BDASIA has estimated Proved ore reserves based on the Measured mineral resource category and Probable ore reserves based on the Indicated mineral resource category for the portions of the Measured and Indicated mineral resources with a production plan using selected mining dilution and mining recovery factors. The defined Proved and Probable ore reserves support a mine life of approximately 17 years at the production rate of 1,300 tpd. In addition, there are significant, less reliable, Inferred class mineral resources present at the deposit and significant exploration potential also exists at the property.

Risk Component	Comments
Mining *Moderate Risk*	Limited geological and geotechnical information is available for mine planning. As a result reliable mine design cannot be achieved and planning must be flexible to accommodate changes as dictated by the evolving mine development. A satisfactory feasibility study has been completed given the information available, however, detailed mine plans and schedules require detailed information concerning the ore zones. A significant amount of development is required to bring the mine to the planned level of production and to sustain it. The proposed mining methods are appropriate given the limited exposure to the orebodies, but the stope dimensions could be conservative based on observations underground and previous mining activities. Limited allowance has been made for maintenance facilities within the mine. The operation of electric locomotives and scooptrams requires adequate maintenance facilities and preventive maintenance, without which the reliable movement of ore from stope to the mill will be at risk.
Processing *Low Risk*	The process and flowsheet are relatively simple and conventional. It is expected that both will perform well within the constraints imposed by the nature of the ore. Minor corrections will be necessary and the impact on cash flow will be minor. Therefore, the processing risk here is low.

Risk Component	Comments
Infrastructure *Low to Moderate Risk*	The basic infrastructure is in place at the mine for the 1,300 tpd operation. Adequate electric power is available at the site, however, the reliability of supply is questionable. Some standby capacity will be installed but may not be sufficient for continuous operation. Water is abundant in the area and sufficient for mine and mill production. The remote location and difficult access will result in difficulties in recruiting and maintaining qualified professional and technical staff for the project. Transportation of concentrates and supplies may also be interrupted sometimes due to weather conditions.
Production Targets *Low to Moderate Risk*	The planned production rate for the Damajianshan Mine is generally considered as achievable by BDASIA under the current 1,300 tpd production plan. However, BDASIA believes it is more important now for the Company to carry out additional exploration work in order to fully define the geometry of the orebodies. In this case, the initial production of the 1,300 tpd plant will likely be postponed again. The arsenic content of the copper concentrates produced from the mine should be closely monitored and controlled at the current level of 1.2 to 1.6% or a lower level as the high arsenic content in copper concentrate could impact its salability and sale price.
Operating Cost *Low Risk*	The mine costs have been developed from first principles and appear to be reasonable.
Capital Cost *Low Risk*	The mine capital costs are considered to be comprehensible and reasonable for the current level of mine planning. The construction of the new 1,000 tpd mill is nearly completed during BDASIA's site visit.

Risk Component	Comments
Environment *Low Risk*	Mitigation measures are to be put in place to ensure environmental risks are minimized and regulatory environmental requirements are satisfied. The new TSF is designed to withstand potential flood and seismic impact. The Company is in the process of applying for an environmental permit for the project expansion. Any delays in issuing the environmental permit may delay construction of the tailings dam and the proposed production schedule.
Occupational Health and Safety *LowRisk*	Luchun Xingtai intends to conduct its operations in accordance with national safety regulations.

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. SHARE CAPITAL

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

		HK$
Authorised capital:		
2,000,000,000	ordinary shares of HK$0.10 each	200,000,000
Issued and fully paid or credited as fully paid:		
As at the Latest Practicable Date:		
884,737,652	ordinary shares of HK$0.10 each	88,473,765

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

On 22 October 2007, the Company issued a convertible note in the principal amount of HK$120 million to Parklane International Holdings Limited. As at the Latest Practicable Date, principal amount of HK$78 million of the convertible note was outstanding.

3. 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)	Interest held by controlled corporation *(Note)*	445,500,000	50.35%

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 substantial shareholders	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	50.35%
Parklane International Holdings Limited *(Note 2)*	Beneficial owner	185,714,285	20.99%
Leung Chi Yan *(Note 2)*	Interest held by controlled corporation	185,714,285	20.99%
Chuntin Investments Limited *(Note 3)*	Beneficial owner	60,000,000	6.78%
Juang William *(Note 3)*	Beneficial owner	60,000,000	6.78%
Prideful Future Investments Limited *(note 4)*	Beneficial owner	443,332,000	50.11%
Cheung Sze Wai, Catherine *(note 4)*	Interested held by controlled corporation	443,332,000	50.11%
Shimmer Expert Investments Limited *(note 5)*	Beneficial owner	411,664,000	46.53%
Groom High Investments Limited *(note 5)*	Interested held by controlled corporation	411,664,000	46.53%
Zhang Li *(note 5)*	Interested held by controlled corporation	411,664,000	46.53%
Top Respect Holdings Limited *(note 6)*	Beneficial owner	249,168,000	28.16%
Chang Hing Hang *(note 6)*	Interested held by controlled corporation	249,168,000	28.16%
Villas Green Investments Limited *(note 7)*	Beneficial owner	249,168,000	28.16%
Chong Yee Kwan *(note 7)*	Interested held by controlled corporation	249,168,000	28.16%
Gracious Fortune Investments Limited *(note 8)*	Beneficial owner	195,000,000	22.04%

Name of substantial shareholders	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Li Hua *(note 8)*	Interested held by controlled corporation	195,000,000	22.04%
Wander Profits Investments Limited *(note 9)*	Beneficial owner	86,668,000	9.80%
Potential High Investments Limited *(note 9)*	Interested held by controlled corporation	86,668,000	9.80%
Zhang Rui *(note 9)*	Interested held by controlled corporation	86,668,000	9.80%
Talent Zone Investments Limited *(note 10)*	Beneficial owner	120,666,000	13.64%
Ho Pui Fan *(note 10)*	Interested held by controlled corporation	120,666,000	13.64%

Notes:

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

2. The 185,714,285 Shares are derived from the convertible note issued on 13 June 2007 in the outstanding principal amount of HK$78,000,000 and are held by Parklane International Holdings Limited, which is 100% held by Leung Chi Yan. Leung Chi Yan is the President of the Perryville Group

3. The 60,000,000 Shares are held by Chuntin Investments Limited, a company incorporated in the BVI and controlled by Mr. Juang William. Mr Juang William does not hold any position in the Group. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save as being a shareholder of the Company, (i) Mr Juang William is independent and not a connected person (as defined under the Listing Rules) of the Company; (ii) Mr Juang William is not party acting in concert with the existing Shareholders; and (iii) Mr Juang William is not party acting in concert with the Vendors and their ultimate beneficial owners.

4. The 443,332,000 Shares are derived from the Convertible Notes in the principal amount of HK$130,000,000 to be issued to Prideful Future Investments Limited, a company incorporated in the BVI and controlled 100% by Cheung Sze Wai, Catherine.

5. The 411,664,000 Shares are derived from 86,664,000 Consideration Shares and the Convertible Notes in the principal amount of HK$97,500,000 to be issued to Shimmer Expert Investments Limited, a company incorporated in the BVI and controlled 100% by Groom High Investments Limited. Groom High Investments Limited is a company incorporated in the BVI and controlled 100% by Zhang Li.

6. The 249,168,000 Shares are derived from the Convertible Notes in the principal amount of HK$74,750,000 to be issued to Top Respect Holdings Limited, a company incorporated in the BVI and controlled 100% by Chang Hing Hang.

7. The 249,168,000 Shares are derived from the Convertible Notes in the principal amount of HK$74,750,000 to be issued to Villas Green Investments Limited, a company incorporated in the BVI and controlled 100% by Chong Yee Kwan.

8. The 195,000,000 Shares are derived from the Convertible Notes in the principal amount of HK$58,500,000 to be issued to Gracious Fortune Investments Limited, a company incorporated in the BVI and controlled 100% by Li Hua.

9. The 86,668,000 Shares are derived from 86,668,000 Consideration Shares to be issued to Wander Profits Investments Limited, a company incorporated in the BVI and controlled 100% by Potential High Investments Limited. Potential High Investments Limited is a company incorporated in the BVI and controlled 100% by Zhang Rui.

10. The 120,666,000 Shares are derived from 120,666,000 Consideration Shares to be issued to Talent Zone Investments Limited, a company incorporated in the BVI and controlled 100% by Ho Pui Fan.

(ii) Long positions in share of subsidiaries 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 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.

4. 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 2007, 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.

5. LITIGATION

The intra-city toll free collection policy had been 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 descent of such toll receipt for 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 RMB7.8 million 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.

6. CORPORATE INFORMATION

BOARD OF DIRECTORS
Executive Directors

Cheng Yung Pun *(Chairman)*
Chan Kam Kwan, Jason

Independent Non-executive Directors

Lau Kwok Kuen, Eddie
Uwe Henke Von Parpart
Wilton Timothy Carr Ingram

AUDIT COMMITTEE & REMUNERATION COMMITTEE

Lau Kwok Kuen, Eddie
Uwe Henke Von Parpart
Wilton Timothy Carr Ingram

QUALIFIED ACCOUNTANT

Fu Ming Kit

COMPANY SECRETARY

Chan Kam Kwan, Jason

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

3906, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

WEBSITE

www.irasia.com/listco/hk/wahnam

7. 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)).

8. 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
Behre Dolbear Asia, Inc ("BDASIA")	Independent technical adviser
Guantao Law Firm ("Guantao")	PRC legal adviser
Vigers Appraisal and Consulting Limited ("Vigers")	Independent valuer

Deloitte, BDASIA, Guantao 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 reports and/or references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Deloitte, BDASIA, Guantao or Vigers was 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 securities in any member of the Group, nor did they have any interest, either direct or indirect, in any assets which had 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 2007, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. 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 and the Supplemental Deed.

(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. Please refer to the announcement of the Company dated 15 May 2007 for details.

(c) The conditional sale and purchase agreement dated 13 June 2007 entered into between the Company and Parklane International Holdings Limited in respect of the acquisition of the entire issued share capital of Perryville Group Limited at the consideration for HK$170,000,000. Please refer to the announcement of the Company dated 29 June 2007 for details.

(d) The conditional placing agreement entered into between the Company and Kingston Securities Limited dated 16 October 2007 in relation to the placing of 71,000,000 new Shares at the price of HK$0.54 per Share on a fully underwritten basis. Please refer to the announcement of the Company dated 16 October 2007 for details.

(e) The conditional placing agreement entered into between the Company and Kingston Securities Limited dated 16 October 2007 in relation to the placing of a maximum of 71,000,000 new Shares at the price of HK$0.54 per Share on a best effort basis. Please refer to the announcement of the Company dated 16 October 2007 for details.

(f) The agreement dated 6 June 2008 entered into between the Company, Leading Highway Limited (a company incorporated in BVI with limited liability wholly-owned by Mr. Cheng Yung Pun, an executive Director and a controlling shareholder of the Company) and Mr. Cheng Yung Pun in relation to the sale and purchase of the Cableport Group. Please refer to the announcement of the Company dated 13 June 2008 for details.

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.

10. SECRETARY AND QUALIFIED ACCOUNTANT OF THE COMPANY

The secretary of the Company is Chan Kam Kwan, Jason. Mr. Chan is a member of American Institute of Certified Public Accountant.

The qualified accountant of the Company is Fu Ming Kit. Mr. Fu is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

11. 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 Members present in person (or in the case of a Member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) a Member or Members present in person or (or in the case of a Member 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 Members having the right to vote at the meeting; or

(iv) a Member or Members present in person (or in the case of a Member 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.

12. 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 annual reports of the Company for each of the three financial years ended 31 December 2007;

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

(d) the accountants' report on Luchun Xingtai, the text of which is set out in Appendix III to this circular;

(e) the report in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(f) the technical assessment report dated 30 June 2008 prepared and issued by BDASIA, the text of which is set out in Appendix VII to this circular;

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

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

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

(j) a copy of this circular.

13. MISCELLANEOUS

— The correspondence address of the Company is at 3906, Far East Finance Centre, 16 Harcourt Road, Admiralty, 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 IS HEREBY GIVEN THAT a special general meeting (the "SGM") of Wah Nam International Holdings Limited (the "Company") will be held at Mont Blanc Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Friday, 18 July 2008, at 10:45 a.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolutions:

ORDINARY RESOLUTIONS

(1) "**THAT** the authorized share capital of the Company be increased from HK$200,000,000, divided into 2,000,000,000 shares of HK$0.10 each (the "**Shares**"), to HK$400,000,000, divided into 4,000,000,000 new Shares by the creation of an additional 2,000,000,000 Shares and that the directors of the Company be and are hereby generally and unconditionally authorized 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 authorized 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 same."

(2) "**THAT** conditional upon passing of resolution 1 above:

(a) the sale and purchase agreement dated 30 January 2008 (the "**S&P Agreement**") and the supplemental deed dated 27 June 2008 (the "Supplemental Deed"), entered into by the Company, Golden Genie Limited and the vendors named therein (the "**Vendor**") pursuant to which the Vendors have agreed to sell and the Company has agreed to acquire the entire issued share capital of Smart Year Investments Limited, details of the S&P Agreement and the Supplemental Deed are set out in the circular of the Company dated 30 June 2008 (the "**Circular**") (a copy of the S&P Agreement and the Supplemental Deed have 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;

* *For identification purpose only*

(b) the directors of the Company be hereby authorized to (i) issue and allot 315,666,000 Shares (the "**Consideration Shares**"); and (ii) issue the convertible notes of an aggregate principal amount of HK$435,500,000 (the "**Convertible Notes**"), pursuant to the S&P Agreement and the Supplemental Deed as the consideration for the acquisition under the S&P Agreement and the Supplemental Deed;

(c) the directors of the Company be and are hereby generally and unconditionally authorized to issue and allot such number of Shares (the "**Conversion Shares**"), credited as fully paid, to the holders of the Convertible Notes (or its/their nominee), upon conversion of the Convertible Notes (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 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 authorized 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 authorized 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 and the Supplemental Deed."

(3) "**THAT**

(a) the Proposed Share Issue (as defined and described in the Circular) be and is hereby approved and the board of directors of the Company (the "Board") be and is hereby granted a specific mandate to allot and issue new Shares in connection with the Proposed Share Issue (as defined in the Circular), which specific mandate can be exercised once or more than once;

(b) contingent on the Board resolving to issue and allot Shares pursuant to paragraph (3)(a) above, the Board be and is hereby generally and unconditionally authorized to

(i) determine and deal with at its discretion and with full authority, matters relating to the Proposed Share Issue (as defined and described in the Circular) (including but not limited to the specific timing of issue, final number of new Shares to be issued (in any event not more than 300,000,000 new Shares), offering mechanism, pricing mechanism, issue price (subject to the basis for determining the issue price described on page 31 in the Circular), target subscribers and the number and proportion of Shares to be issued to each subscriber); and

(ii) 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 authorized 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 Proposed Share Issue."

By Order of the Board
Wah Nam International Holdings Limited
Chan Kam Kwan, Jason
Company Secretary

Hong Kong, 30 June 2008

Head office and principal place of business in Hong Kong:
3906 Far East Finance Centre
16 Harcourt Road
Admiralty, 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.

As at the date hereof, the Board comprises Mr. Cheng Yung Pun and Mr. Chan Kam Kwan, Jason as executive Directors and Lau Kwok Kuen, Eddie, Mr. Uwe Henke Von Parpart and Mr. Wilton Timothy Carr Ingram as independent non-executive Directors.