



# WAH NAM INTERNATIONAL HOLDINGS LIMITED

## 華南投資控股有限公司\*

(incorporated in Bermuda with limited liability)

(Stock Code: 159)

### ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2007

The board of directors (“the Board”) of Wah Nam International Holdings Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2007, together with the comparative figures for 2006. The consolidated results have been reviewed by the Company’s audit committee.

#### CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2007

	Notes	2007 HK\$'000	2006 HK\$'000
Revenue	6	25,380	15,213
Business tax		(340)	(760)
Direct costs		<u>(22,624)</u>	<u>(7,545)</u>
		2,416	6,908
Other income		719	1,147
Administrative expenses		(6,746)	(2,563)
Finance costs	8	<u>(1,718)</u>	<u>(481)</u>
(Loss) profit before taxation		(5,329)	5,011
Income tax expense	9	<u>(700)</u>	<u>(1,142)</u>
(Loss) profit for the year	10	<u><u>(6,029)</u></u>	<u><u>3,869</u></u>
Attributable to:			
Equity holders of the Company		(5,243)	1,000
Minority interests		<u>(786)</u>	<u>2,869</u>
		<u><u>(6,029)</u></u>	<u><u>3,869</u></u>
(Loss)/Earnings per share	12		
— Basic (HK cents)		<u><u>(0.77)</u></u>	<u><u>0.17</u></u>
— Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

## CONSOLIDATED BALANCE SHEET

At 31st December, 2007

	Notes	2007 HK\$'000	2006 HK\$'000
<b>Non-current assets</b>			
Toll road operation rights		82,203	81,414
Property, plant and equipment		51,148	459
Goodwill		91,872	—
Intangible asset		100,977	—
Amounts due from minority shareholders of a subsidiary		52,674	48,872
Deferred tax assets		5,754	4,048
		<u>384,628</u>	<u>134,793</u>
<b>Current assets</b>			
Trade receivables	13	13,455	—
Other receivables, deposits and prepayments		4,265	237
Bank balances and cash		40,027	9,678
		<u>57,747</u>	<u>9,915</u>
<b>Current liabilities</b>			
Trade payables	14	6,159	—
Other payables and accrued charges		8,576	1,746
Tax liabilities		74	215
Bank borrowings due within one year		26,183	—
Obligations under finance leases		1,507	—
		<u>42,499</u>	<u>1,961</u>
<b>Net current assets</b>		<u>15,248</u>	<u>7,954</u>
<b>Total assets less current liabilities</b>		<u>399,876</u>	<u>142,747</u>
<b>Capital and reserves</b>			
Share capital	15	78,474	59,484
Reserves		129,835	691
<b>Equity attributable to equity holders of the Company</b>		<u>208,309</u>	<u>60,175</u>
<b>Minority interests</b>		<u>77,878</u>	<u>81,236</u>
<b>Total equity</b>		<u>286,187</u>	<u>141,411</u>
<b>Non-current liabilities</b>			
Bank borrowings due after one year		1,647	—
Obligations under finance leases		3,719	—
Convertible notes		84,058	—
Deferred tax liabilities		24,265	—
Amount due to a director		—	1,336
		<u>113,689</u>	<u>1,336</u>
		<u>399,876</u>	<u>142,747</u>

## 1. CORPORATE INFORMATION

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”).

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the “Group”) 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

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

<sup>1</sup> Effective for accounting periods beginning on or after 1st January, 2009

<sup>2</sup> Effective for accounting periods beginning on or after 1st July, 2009

<sup>3</sup> Effective for accounting periods beginning on or after 1st March, 2007

<sup>4</sup> Effective for accounting periods beginning on or after 1st January, 2008

<sup>5</sup> 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 change 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. EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

##### **Basis for qualified opinion**

Included in the consolidated balance sheet as at 31st 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 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 the Hangzhou City Government, the PRC ("Government") in future years. Other than the amount already received during the year ended 31st December, 2006 as detailed below, the Group is still negotiating with

the Government as to the remaining amount of compensation to be received by the Group. 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 31st December, 2006 and 31st 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 31st 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 as described above. Because of the matter explained in the preceding paragraph, we were unable to assess whether these deferred tax assets should be reversed.

Included in the consolidated balance sheet as at 31st 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). 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 these minority shareholders.

There were no alternative audit procedures that we could adopt to satisfy ourselves that the carrying amounts in respect of the toll road operation rights, deferred tax assets and amounts due from minority shareholders of HHED are free from material misstatement. Any adjustment found to be necessary to these amounts would affect the net assets of the Group as at 31st December, 2006 and 2007 and its loss for the years ended 31st December, 2006 and 2007. The matters referred to above caused us to qualify our audit opinion on the consolidated financial statements of the Group for the year ended 31st December, 2007.

#### **Qualified opinion arising from limitation of audit scope**

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

## 5. BASIS OF VALUATION OF KEY ASSETS

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. 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; and
- legal documents from the Hangzhou City government on the approval of the toll road operation and toll rates being charged.

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, no recoverability/ utilisation problem on the amounts due from minority shareholders or the deferred tax assets was found.

Since, up to the approval date of these financial statements, HHED still cannot reach an agreement with Hangzhou City government on the amount of compensation, the Group had obtained legal opinion from 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.

## 6. 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.

	<b>2007</b>	2006
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Gross toll receipts	<b>6,432</b>	7,409
Hangzhou City government compensation	—	7,804
Income from limousine rental services	<b>14,941</b>	—
Income from airport shuttle rental services	<b>4,007</b>	—
	<u><b>25,380</b></u>	<u>15,213</u>

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

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

	2007			2006		
	Toll road operation HK\$'000	Limousine rental services HK\$'000	Airport shuttle rental services HK\$'000	Consolidated HK\$'000	Toll road operation HK\$'000	Consolidated 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
Unallocated assets				<u>46,091</u>		<u>13,726</u>
Consolidated total assets				<u><u>442,375</u></u>		<u><u>144,708</u></u>
Segment liabilities	1,526	6,816	5,393	13,735	1,746	1,746
Unallocated liabilities				<u>142,453</u>		<u>1,551</u>
Consolidated total liabilities				<u><u>156,188</u></u>		<u><u>3,297</u></u>



(3) *Other information:*

	Year ended 31st December, 2007			Year ended 31st December, 2006	
	Toll road operation <i>HK\$'000</i>	Limousine rental services <i>HK\$'000</i>	Airport shuttle rental services <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>	Toll road operation <i>HK\$'000</i>
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:

	The PRC <i>HK\$'000</i>	2007 Hong Kong <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>	2006 PRC <i>HK\$'000</i>
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:

	The PRC <i>HK\$'000</i>	2007 Hong Kong <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>	2006 PRC <i>HK\$'000</i>
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	—

## 8. FINANCE COSTS

Finance costs represent:

	<b>2007</b>	2006
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Effective interest expenses on convertible notes	<b>1,170</b>	—
Imputed interest on amount due to ultimate holding company	—	259
Imputed interest on amount due to a director	<b>107</b>	222
Interest on bank borrowings wholly repayable within five years	<b>363</b>	—
Finance leases	<b>78</b>	—
	<u><b>1,718</b></u>	<u>481</u>

## 9. INCOME TAX EXPENSE

	<b>2007</b>	2006
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
PRC Enterprise Income Tax:		
Current year	<b>74</b>	872
Underprovision in prior years	—	51
	<u><b>74</b></u>	<u>923</u>
Deferred tax:		
Current year	<b>626</b>	219
	<u><b>700</b></u>	<u>1,142</u>

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.

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both years. 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.

## 10. LOSS (PROFIT) FOR THE YEAR

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
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	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	—

## 11. DIVIDEND

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

## 12. (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.

**13. TRADE RECEIVABLES**

	<b>2007</b>	2006
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Trade receivables	<b>13,559</b>	—
<i>Less:</i> allowance for doubtful debts	<b>(104)</b>	—
	<hr/>	<hr/>
Trade receivables – net	<b>13,455</b>	—
	<hr/> <hr/>	<hr/> <hr/>

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:

	<b>2007</b>	2006
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
0-30 days	<b>7,856</b>	—
31-60 days	<b>3,605</b>	—
61-90 days	<b>1,371</b>	—
Over 90 days	<b>623</b>	—
	<hr/>	<hr/>
	<b>13,455</b>	—
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**14. TRADE PAYABLES**

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:

	<b>2007</b>	2006
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
0-30 days	<b>4,975</b>	—
31-60 days	<b>1,180</b>	—
61-90 days	<b>1</b>	—
Over 90 days	<b>3</b>	—
	<hr/>	<hr/>
	<b>6,159</b>	—
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## 15. SHARE CAPITAL

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

*Notes:*

- 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.
- 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.
- 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.

## 16. ACQUISITION OF SUBSIDIARIES

The Group entered into a sale and purchase agreement ("S&P Agreement") with Parklane International Holdings Limited (the "Vendor"). Pursuant to the S&P Agreement, the Company conditionally agreed to acquire and the Vendor conditionally agreed to sell the entire issued share capital of Perryville Group Limited and its subsidiaries ("Perryville Group"), 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 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 in Hong Kong through its wholly owned subsidiaries, namely, Parklane Limousine Service Limited and Airport Shuttle Services Limited.

Preliminary valuation of intangible asset of customer base of Perryville Group as disclosed in the circular of the Company dated 27th September, 2007 amounted to approximately HK\$133,177,000. During the audit, the independent valuer has made certain adjustments to the valuation assumptions, such as growth, attrition rate and length of forecast period, etc., and the final value of such valuation has been revised to HK\$102,952,000.

## 17. 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 of the Company 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.

## **BUSINESS REVIEW**

The Group recorded total consolidated revenue for the year of HK\$25.4 million from its toll road operations and limousine and airport shuttle rental services. This represents a significant increase of 1.7 times compared to last year's total consolidated revenue of HK\$15.2 million.

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 toll road operation rights is owned and operated by Hangzhou Huanan Engineering Development Co. Ltd ("HHED"). Since 2004, an agreement was entered into between HHED and Hangzhou City government (the "Government"), granting HHED receipt of daily compensation 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. 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 recognized 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 Hangzhou City 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 Hangzhou City government seeking judgement on the amount of government compensation. As of the date of this report, outcome of the civil petition is still pending and no agreement has yet been reached with the Hangzhou City government.

During the year, the Group has successfully completed the acquisition of Perryville Group Limited and its subsidiaries ("Perryville Group") in October 2007. The principal operation of Perryville Group is provision of limousine and airport shuttle rental services, 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\$2.6 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 risk exposure, and in the long term, offers better financial performance to the Group and enhancement to shareholders' value.

## **PROSPECTS**

As the Group is uncertain when and how much it can be recovered from the claims against the Hangzhou City Government, this year while continuing the litigation, the Group will place more effort in the new Perryville Group business and will further look for new investment opportunities. Perryville Group's Hong Kong business is expected to be stable. Currently we have contracts with over 40 hotels to supply our services. Looking ahead, the demand of the high-end limousine rental services is increasing in China and our Perryville Group is now establishing footsteps in Shenzhen, Guangzhou, Shanghai and Beijing to capture the market shares in these unexplored markets. Leveraging on our expertise and successful experience in Hong Kong, we are very optimistic about its future.

In January 2008, the Group signed a conditional agreement to acquire a company in Yunnan Province which is principally engaged in exploitation, processing and sale of copper, lead, zinc, arsenic, silver and other mineral resources. The completion of the acquisition will be subject to certain conditions including the approval of the shareholders. The acquisition would allow the Group to diversify its income base. In view of the increase in demand for natural resources in the world and the increase in the prices of mineral resources over the past years, we are optimistic about the future prospects and demand for natural resources. 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. We will continue to look for good investment opportunities in the same or in different business areas in order to enhance the long-term value for the shareholders. We will seek ways to further strengthen our capital and liquidity base to facilitate our further business expansion and organic business growth.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group generally finances its short term funding requirements with cash generated from operation, credit facilities from suppliers and banking facilities provided by our principal bankers.

To facilitate the acquisition of Perryville Group and to inject new funding for expansion and working capital needs, the Group raised net proceeds of HK\$40.3 million and HK\$37.4 million through the placements of 118.9 million and 71 million new ordinary shares, respectively, during the year.

The placement of new ordinary shares and the acquisition of Perryville Group have resulted in improvement in the Group's consolidated net asset value and led to significant changes to the structure of the working capital of the Group. As at the balance sheet date, consolidated net asset value of the Group stood at HK\$286.2 million, representing a marked increase of more than two folds over that of HK\$141.4 million recorded last year. Owing to the characteristics of operation of the limousine and airport shuttle rental service of the Perryville Group, with more current term financing, this year's current ratio measured at 1.4 times compared to that of 5 times as recorded last year.

The gearing ratio for the year (Long term debts over total equity) is measured at 0.24, and there were no long term debts last year. As at the balance sheet date, the Group has total bank and other borrowings amounted to approximately HK\$33 million, all of which are secured, approximately HK\$27.7 million due within one year and the balance of HK\$5.3 million due more than one year. All of the borrowings are denominated in Hong Kong dollars.



During the year, the Group did not engage in the use of any other financial instruments for hedging purposes, and there is no hedging instrument outstanding as at 31st December, 2007.

## **CAPITAL STRUCTURE**

During the year, the Company has the following movement in the share capital as follows:

- (a) Pursuant to obtaining 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 was executed by the Company 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.
- (c) Pursuant to a placing and subscription agreement executed by the Company 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.

## **CHARGE OF ASSETS**

As at 31st 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.

## **CONTINGENT LIABILITIES**

Save as disclosed in the notes to the consolidated financial statements for the year, the Group had no significant contingent liabilities as at 31st December, 2007 and at 31st December, 2006.

## **STAFF AND REMUNERATION**

As at 31st December, 2007, the Group employed approximately 198 full time employees, of which approximately 63 were in the PRC. The remuneration of employees includes salary and discretionary bonus. The Group also adopted a share option scheme to provide an incentive to the employees.

The remuneration policy and package, include the share options, of the Group's employees are maintained at market level and reviewed annually by the management.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

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

## **COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES**

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

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

1. Code provision A.2.1, the role of chairman and chief executive officer (“CEO”) should be separate and should not be performed by the same individual. In the opinion of the Board, the present structure is more suitable to the Company because it can promote the efficient formulation and implementation of the Company’s strategies.
2. Code provision A.4.1 stipulates that non-executive director should be appointed for a specific term. During the year, not all of the existing non-executive Directors (including independent non-executive) are appointed for a specific term since all non-executive Directors of the Company (including independent non-executive) are subject to retirement provisions under the Company’s Bye-laws. The Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the CGP Code.

Detailed information of such deviations and their respective considered reasons as well as other information on the corporate governance practices of the Company will be disclosed in the corporate governance report contained in the 2007 annual report of the Company, which will be despatched to the shareholders of the Company on or before 30th April, 2008.

## **DIRECTORS’ SECURITIES TRANSACTIONS**

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

## **AUDIT COMMITTEE**

The Audit Committee comprises of three independent non-executive directors, Messrs Lau Kwok Kuen, Eddie, Uwe Henke Von Parpart and Wilton Timothy Carr Ingram. Mr. Ingram is the chairman of the Audit Committee. The Audit Committee has adopted the terms of references which are in line with the Code on Corporate Governance Practices. The Audit Committee has reviewed the Group’s annual results for year ended 31st December, 2007.

## **APPRECIATION**

The Board wishes to take this opportunity to express gratitude to our employees for their contribution and dedication to the Group. We also thank our shareholders, customers and suppliers for their continuous support.

By order of the Board  
**Cheng Yung Pun**  
*Chairman*

Hong Kong 22nd April, 2008

*As at the date of this announcement, the Board of the Company 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.*

\* *for identification purpose only*