

## 4 CHAIRMAN'S STATEMENT

To our Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Wah Nam International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I am delighted to present this annual report for the financial year ended 31st December, 2006.

### RESULTS

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

### BUSINESS REVIEW

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

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

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

Highlights of revenue comparison were:

#### Joint Venture in Hangzhou

##### *Hangzhou Toll Road*

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

## BUSINESS REVIEW (CONTINUED)

### Joint Ventures in Shanxi

#### *Shanxi-Xiangyi Toll Road and Bridge*

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

#### *Shanxi-Linhong Toll Road and Bridge*

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

## FINANCIAL REVIEW

### Liquidity and Financial Resources

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

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

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

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

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

## EMPLOYEES AND REMUNERATION POLICY

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

## PROSPECTS

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

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

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

## APPRECIATION

I would like to thank you for being our valuable members in the past years, giving us support and trust. Taking this opportunity, I would also like to thank the management and all our staff's contribution and their commitment to ensuring we master every challenge faced by the Group for the year.

**Cheng Yung Pun**  
*Chairman*

Hong Kong, 15th March, 2007