

# Deloitte.

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### TO THE MEMBERS OF WAH NAM INTERNATIONAL HOLDINGS LIMITED

華南投資控股有限公司

*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Wah Nam International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 20 to 44, which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## BASIS FOR QUALIFIED OPINION

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

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

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

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

## QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters set out in the basis of qualified opinion above, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 15th March, 2007