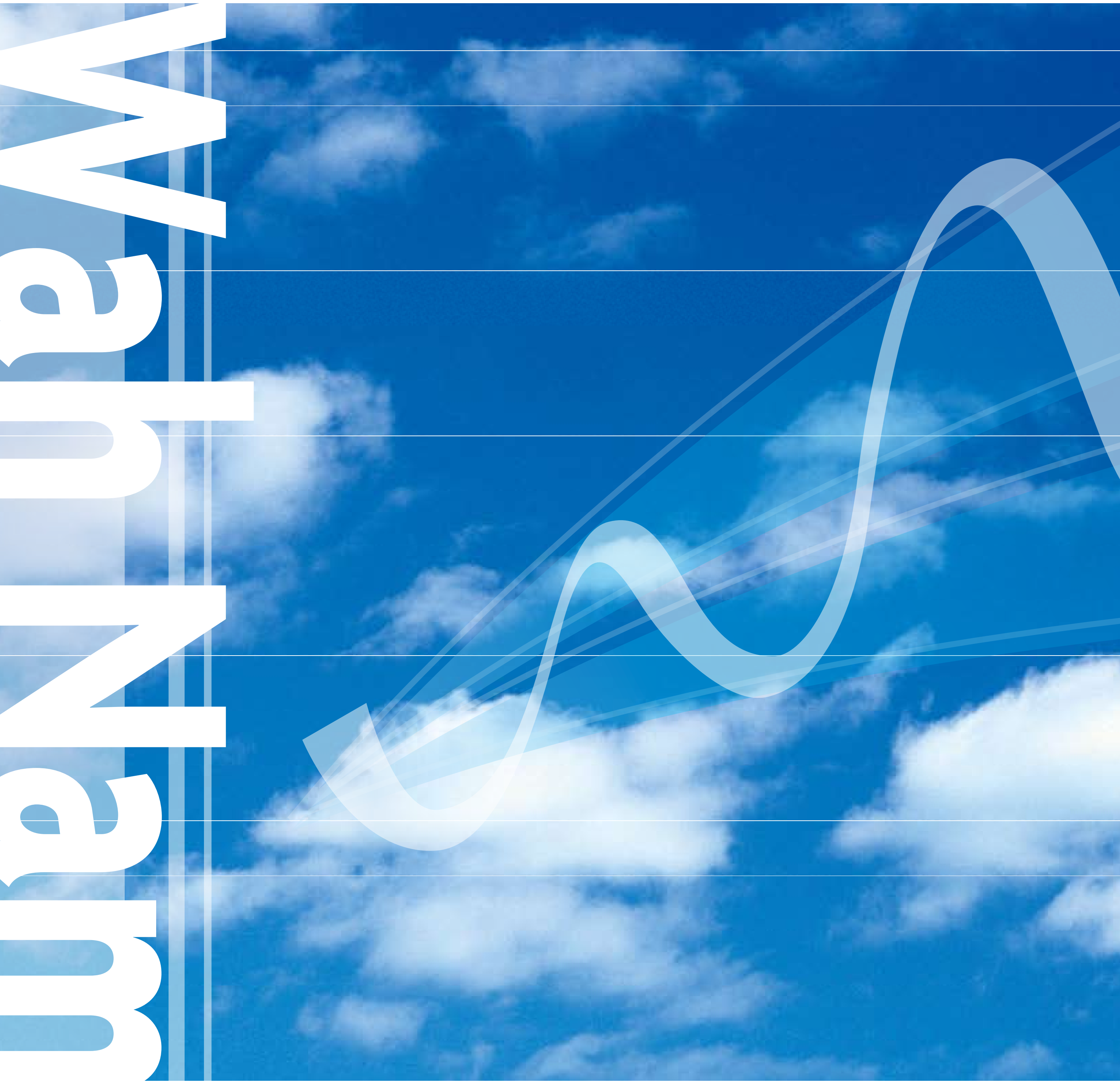
Wah Nam International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 0159

Annual Report 07



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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

QUALIFIED ACCOUNTANT

Fu Ming Kit, Chris

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 IN HONG KONG

Unit 3906, 39th Floor
Far East Finance Centre
16 Harcourt Road
Admiralty, Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

WEBSITE

www.irasia.com/listco/hk/wahnam
www.wahnamintl.com

STOCK CODE

0159
(Main Board of The Stock Exchange of Hong Kong Limited)

CHAIRMAN'S STATEMENT

2007 was a difficult but challenging year for the Group. Despite the slight increase of approximately 9% of the traffic volume in the toll road in Hangzhou, we were still suffering loss in such operation. The situation has not been improved since last year. In the absence of the agreement with Hanzhou City Government, we did not receive any revenue from the usage by the locally registered vehicle, which contribute more than 80% of the total traffic volume during the year.

We have been in dispute and are seeking compensation against the Hanzhou City Government for more than 2 years. The decision is still pending and we are still waiting for the court's further direction. The uncertainty of the dispute and the policy of the Hangzhou City government have seriously frustrated the Group's determination in continuing such business.

The Group has secured the acquisition of the Perryville Group which is engaged in the business limousine rental and airport shuttle services. The acquisition has diversified the Group's revenue base since acquisition. After the completion of the acquisition, the Perryville Group has contributed to the Group a profit before amortisation of approximately HK$1.2 million. We have started our operation in China and we are confident that the increasing demand of the high-end Limousine service in China and the expertise of Perryville in the operation will bring to the Group a reasonable return.

Other than the current operations and limousine rental and airport shuttle services, we are always looking into good investment opportunities in the same or in different business areas in order to enhance the long-term value for the shareholders. To facilitate our further business expansion, we will seek ways to further strengthen our capital and liquidity base.

Lastly, I wish to thank each member of our staff and our shareholders for your continuous support.

Cheng Yung Pun
Chairman

Hong Kong, 22nd April, 2008

MANAGEMENT DISCUSSION AND ANALYSIS

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 the 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 such compensation. Since 2006, apart from the compensation income of HK$7.8 million paid by the Government in that year, 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 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 for the year, and a profit before amortisation of approximately HK$1.2 million.

The management of the Group believes that, the acquisition 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.

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.

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.

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 further 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

Mr. Cheng Yung Pun, aged 57, is the Chairman of the Company since the year 2002. Mr. Cheng is responsible for the overall management, strategic planning and business development of the Group. Mr. Cheng has more than 26 years' extensive experience in plastic toys manufacturing, property development and investment. He also has extensive management experience of the PRC operations.

Mr. Chan Kam Kwan, Jason

Mr. Chan Kam Kwan, Jason, aged 34, is also the company secretary of the Company. Mr. Chan graduated from the University of British Columbia in Canada with a Bachelor of Commerce Degree and is a member of the American Institute of Certified Public Accountants. Mr. Chan has more than 10 years of experience in corporate finance.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Kwok Kuen, Eddie

Mr. Lau Kwok Kuen, Eddie, aged 52, graduated from the Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) and is a fellow member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountant of the United Kingdom. He has been practicing as a Certified Public Accountant in Hong Kong since 1982.

Mr. Uwe Henke Von Parpart

Mr. Uwe Henke Von Parpart, aged 66, received a Fulbright scholarship and did his graduate work in mathematics and philosophy (Ph.D.) at Princeton University and the University of Pennsylvania.

Mr. Parpart has been the Chief Economist and Strategist for Asia at Cantor Fitzgerald ("Cantor") in Hong Kong. In this capacity, he is responsible for macro-economic, fixed-income and equity-markets research and strategy in Asia. He joined Cantor in August 2006. His analyses are published on a weekly and daily basis and frequently featured on CNBC Asia and Bloomberg TV. Prior to joining Cantor, Mr. Parpart worked for four years as a senior currency strategist at Bank of America, Hong Kong, covering both currencies and bonds. Mr. Parpart has also contributed to numerous magazines and newspapers and until recently was a columnist for Forbes Global and Shinchosha Foresight Magazine (Tokyo).

Mr. Wilton Timothy Carr Ingram

Mr. Wilton Timothy Carr Ingram, aged 61, has extensive experience in investment and has involved in the venture capital in Australia and Hong Kong for more than 20 years. Mr. Ingram is currently a principal of Momentum Investment Group, a venture capital in Australia and he also operates a small fund that invests mainly in smaller miners, explorers and oil drilling and exploration companies. Mr. Ingram is the Chairman of Lumacom Limited, a company listed on the Australia Stock Exchange.

SENIOR MANAGEMENT

Mr. Leung Chi Yan, Danny

Mr. Leung Chi Yan, Danny, aged 60, is the president of the Perryville Group which is principally engaged in the provision of limousine and airport shuttle transportation services in Hong Kong. Mr. Leung graduated from Newport University of Southern California with a Master of Business Administration degree. Mr. Leung has over 30 years of experience in limousine and airport shuttle transportation services and is the Chairman of Hong Kong Limousine Hire Association.

Mr. Fu Ming Kit, Chris

Mr. Fu Ming Kit, Chris, aged 41, Mr. Fu joined Parklane Limousine Service Limited and Airport Shuttle Services Limited in October 2006 and is now the Group's Financial Controller. Mr. Fu has over 17 years of accounting experience. Mr. Fu holds a master degree in business administration from the Open University of Hong Kong. He is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of the Company has adopted its own code on corporate governance practices which incorporates all the code provisions in the Code on Corporate Governance Practices (the "CGP Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

The Company has applied the principles of the CGP Code and its own code since their adoption, with an exception of code provisions A.2.1 and A.4.1 as stated in the CGP Code which will be described in detail below.

BOARD OF DIRECTORS

The Board serves the important function of guiding the management. As at 31st December, 2007, the Board comprised two executive directors, namely Mr. Cheng Yung Pun (Chairman), Mr. Yu Sui Chuen and three independent non-executive directors ("INEDs") namely Mr. Au-Yeung Tsan Pong, Davie, Mr. Fung Ka Choi and Mr. Lau Kwok Kuen, Eddie. On 2nd January, 2008, Mr. Yu Sui Chuen resigned as executive director and Messrs. Au-Yeung Tsan Pong, Davie and Fung Ka Choi resigned as INEDs. On the same date, the following new directors have been appointed:

(i) Mr. Chan Kam Kwan, Jason has been appointed as executive director;

(ii) Mr. Uwe Henke Von Parpart has been appointed as INED; and

(iii) Mr. Wilton Timothy Carr Ingram has been appointed as INED.

Biographical details of the new directors appear under the section "Biographical Details of Directors and Senior Management".

The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as directors of the Company ("Directors") in the best interest of the Company and that the current board size is adequate for its present operations.

Each of the Directors keeps abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. All Directors are updated from time to time with development in the laws and regulations applicable to the Company and each of the INEDs has made an annual confirmation that he complied with the independence criteria set out in Rule 3.13 of the Listing Rules. The Directors consider that all the three INEDs to be independent under these independence criteria and are capable to effectively exercise independent judgment.

The principal functions of the Board are to make decision on the strategic development of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organization of the Company for implementing the Board's decision. During the year under review, the Board has reviewed, inter alia, the performance of the Group and formulated business strategy of the Group; reviewed and approved the annual and interim results of the Group for the year ended 31st December, 2006 and for the six months ended 30th June, 2007 respectively.

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Bye-laws of the Company allows board meetings to be conducted by way of telephone or videoconference. Any resolutions can be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary except for matters in which a substantial shareholder or a director or their respective associates has a conflict of interest. The Board held eight Board Meetings during the year under review. Mr. Cheng Yung Pun and Mr. Luo ZhiJian had attended six and five meetings respectively. Mr. Yu Sui Chuen, Ms. Cheng Wing See, Nathalie, Mr. Au-Yeung Tsan Pong, Davie, Mr. Fung Ka Choi and Mr. Wong Chu Fung had attended eight meetings. There was no meeting held after the appointment of Mr. Lau Kwok Kuen, Eddie as director on 14th December, 2007.

BOARD OF DIRECTORS *(continued)*

In the board meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner before the date of the board meetings and at least 3 days before the regular board meetings. Sufficient information was also supplied by the management to the Board to enable it to make informed decisions, which are made in the best interests of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Bye-laws of the Company, every director should be subject to retirement by rotation at least once every three year. All Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first annual general meeting after their appointment and that one-third of the Directors should be subject to retirement and re-election every year. During the year, not all of the existing non-executive (including independent non-executive) Directors of the Company is appointed for a specific term, the Company still 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 as all non-executive Directors are subject to retirement provisions under the Company's Bye-laws though it is a deviation to the code provision A.4.1 of the CGP Code.

In considering the nomination of a new director, the Board will review its own size, structure and composition to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the Company. Where vacancies on the Board exist or an additional director is considered necessary, the Chairman will identify suitable candidates and propose the appointment of such candidates to the Board for consideration and the Board will take into account the qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics of the candidates and approved if such appointment considered suitable. The Board also considers that the existing human resource policy in recruitment of new senior staff, to certain circumstance, is applicable to nomination of a new director. Furthermore, as the Board is responsible for selection and approval of candidates for appointment as directors to the Board, the Company has not established a Nomination Committee for the time being.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There is no separation of the roles of chairman and chief executive officer. 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 though it is a deviation to the code provision A.2.1 of the CGP Code.

Chairman of the Board is appointed by the Board. His responsibilities, inter alia, are the leadership and effective running of the Board, ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner and ensure that directors receive adequate information, which must be completed and reliable, in a timely manner.

DIRECTORS' SECURITIES TRANSACTIONS

The Company had adopted the Model Code for Securities Transactions by Directors as 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.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31st December, 2007 have been reviewed by the Audit Committee and audited by the external auditors, Messrs Deloitte Touche Tohmatsu. The Directors acknowledge their responsibility for preparing the financial statements of the Group and presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group in a timely manner.

REMUNERATION COMMITTEE

The principal duties of Remuneration Committee include, inter alia, review and making recommendation to the Board the remuneration policy; making recommendation to the Board of the remuneration of non-executive directors; and determination of the remuneration of the executive director and members of the Senior Management. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

The specific terms of reference of the Remuneration Committee (containing the minimum prescribed duties) are adopted and which are available on request or on the website: www.wahnamintl.com.

The Remuneration Committee consults the Chairman about the proposal relating to the remuneration of other executive Directors and has access to professional advice where necessary. No director and chief executive can determine his own remuneration. During the year under review, the Remuneration Committee has held one meeting which was attended by all the then committee members namely, Mr. Au-Yeung Tsan Pong, Davie, Mr. Fung Ka Choi and Mr. Wong Chu Fung, for reviewing the rewarding system of the Company. Minutes of Remuneration Committee Meeting are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the meeting are sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

AUDIT COMMITTEE

As at 31st December, 2007, the Audit Committee, comprising three INEDs namely Mr. Au-Yeung Tsan Pong, Davie, Mr. Fung Ka Choi and Mr. Lau Kwok Kuen, Eddie (who was appointed on 14th December, 2007, following the resignation of Mr. Wong Chu Fung on the same date) appointed by the Board who have extensive experience in legal and financial matters, meets at least twice a year and was chaired by Mr. Au-Yeung Tsan Pong, Davie. At least one member of the Audit Committee is the qualified accountant. None of the Audit Committee members are members of the former or existing auditors of the Company.

The principal responsibilities of the Audit Committee are, inter alia, to review the appointment of external auditors on an annual basis including a review of the audit scope and approval of the audit fees; to ensure continuing auditor objectivity and to safeguard independence of the Company's auditors; to meet the external auditors to discuss issues and reservations (if any) arising from the interim review and final audit, and any matters the auditors suggest to discuss; to review the Group's internal control system; to review the annual and interim report and quarterly result (if any) prior to approval by the Board in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements; to serve as a focal point for communication between other Directors and the external auditors in respect of the duties relating to financial and other reporting, internal controls, external audit, and such other matters as the Board determines from time to time; to consider major findings of internal review and management's response and ensure proper arrangement in place for the fair and independent review of such concerns and appropriate follow up action; to devise a framework for the type and authorization of non-audit services provided by the external auditors.

AUDIT COMMITTEE *(continued)*

For the year ended 2007, the Audit Committee had held two meetings which were attended by all committee members namely, Mr. Au-Yeung Tsan Pong, Davie, Mr. Fung Ka Choi and Mr. Wong Chu Fung, for reviewing interim and annual reports respectively before submission to the Board in accordance with the accounting policies and practices, relevant accounting standards, the Listing Rules and the legal requirements; reviewing the external auditors' engagement letter; discussing issues during the audits of external auditors.

The external auditors and the senior executives are invited to attend the meeting for annual financial statements. Minutes of Audit Committee Meeting are kept by a duly appointed secretary of the meetings. Draft and final versions of minutes of the meeting are sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meetings.

The Audit Committee discharged their duties in accordance with their terms of reference (containing the minimum prescribed duties). These specific terms of reference are available on request or on the website: www.wahnamintl.com.

AUDITOR'S REMUNERATION

During the year, the auditors of the Company, Messrs. Deloitte Touche Tohmatsu received approximately HK$1,000,000 (2006: HK$389,000) for statutory audit services and approximately HK$1,865,000 for non-audit services.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board has conducted a review of the effectiveness of the system of internal control of the Group including the relevant financial, operational and compliance controls and risk management procedures and has delegated to the management the implementation of such systems of internal controls. The management throughout the Group maintains and monitors the internal control system on an ongoing basis.

COMMUNICATION WITH SHAREHOLDERS

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. The Chairman of the Board as well as Chairman of the Audit and Remuneration Committees and members of the Committees are pleased to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors.

REPORT OF DIRECTORS

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's subsidiaries and infrastructure joint ventures are set out in notes 38 and 20 to the consolidated financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 19.

FINAL DIVIDEND

The Board does not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of the authorised and issued share capital of the Company are set out in note 28 to the consolidated financial statements. There was no movement in the Company's share capital during the year.

DISTRIBUTABLE RESERVES

As at 31st December, 2007 and 2006, the Company has no reserve available for distribution to the shareholders.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 60.

DIRECTORS AND DIRECTORS' SERVICES CONTRACTS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Cheng Yung Pun *(Chairman)*	
Chan Kam Kwan, Jason	(appointed on 2nd January, 2008)
Cheng Wing See, Nathalie	(resigned on 14th December, 2007)
Yu Sui Chuen	(resigned on 2nd January, 2008)

Non-executive Director:

Luo ZhiJian	(resigned on 14th December, 2007)

Independent non-executive Directors:

Lau Kwok Kuen, Eddie	(appointed on 14th December, 2007)
Uwe Henke Von Parpart	(appointed on 2nd January, 2008)
Wilton Timothy Carr Ingram	(appointed on 2nd January, 2008)
Wong Chu Fung	(resigned on 14th December, 2007)
Au-Yeung Tsan Pong, Davie	(resigned on 2nd January, 2008)
Fung Ka Choi	(resigned on 2nd January, 2008)

DIRECTORS AND DIRECTORS' SERVICES CONTRACTS *(continued)*

In accordance with Clauses 87(1) and (2) of the Company's Bye-laws, Mr. Cheng Yung Pun shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting. In accordance with Clause 86(2) of the Company's Bye-laws, Messrs. Chan Kam Kwan, Jason, Lau Kwok Kuen, Eddie, Uwe Henke Von Parpart and Wilton Timothy Carr Ingram shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

All the INEDs are appointed for a specific term and will be subject to retirement by rotation and re-election in accordance with the bye-laws of the Company.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 31st December, 2007, the interests and short positions of the directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of the Listing Companies were as follows:

Long positions of 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	Controlled Corporation *(Note)*	445,500,000	56.77%

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, none of the Directors and chief executives, nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2007.

SHARE OPTION SCHEME

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 14th August, 2002. Particulars of the Share Option Scheme are set out in note 34 to the consolidated financial statements.

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures", at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors of the Company nor their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors has any interests in competing business to the Group.

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of the related party transactions for the year are set out in note 36 to the consolidated financial statements. Other than as disclosed therein, no contracts of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which a director or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

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

Name of shareholder	Capacity	Number of issued/underlying ordinary shares held	Percentage of the issued share capital of the Company
Leading Highway Limited *(Note 1)*	Beneficial owner	445,500,000	56.77%
Parklane International Holdings Limited *(Note 2)*	Beneficial owner	285,714,285	N/A
Leung Chi Yan *(Note 2)*	Interest held by controlled corporations	285,714,285	N/A

Notes:

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

2. The 285,714,285 conversion shares derived from the convertible notes in amount of HK$120,000,000 in accordance with the conditional S&P Agreement dated 13th June, 2007, are held by Parklane International Holdings Limited which is 100% held by Leung Chi Yan.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2007.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws in Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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.

MANAGEMENT CONTRACTS

During the year, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered or existed.

MAJOR CUSTOMERS AND SUPPLIERS

The Group had no major customers due to the nature of the principal activities of the Group. Aggregate operating and administrative expenses attributable to the Group's five largest suppliers were less than 30% of total operating and administrative expenses for the year.

At no time during the year did any Director, any associate of a Director, or any shareholder of the Company, which to the knowledge of the Directors owned more than 5% of the Company's share capital, have any beneficial interests in these customers or suppliers.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme are set out as "Share Option Scheme" above.

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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2007.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 37 to the consolidated financial statements.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

By order of the Board

Cheng Yung Pun
Chairman

Hong Kong, 22nd April, 2008

Deloitte.
德勤

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 19 to 59, which comprise the consolidated balance sheet as at 31st December, 2007, 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.

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 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 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, details of which are set out in notes 8 and 16 to the consolidated financial statements. 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 29 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). As explained in note 22 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 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, 2006.

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.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
22nd April, 2008

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
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

The consolidated financial statements on pages 19 to 59 were approved and authorised for issue by the Board of Directors on 22nd April, 2008 and are signed on its behalf by:

Cheng Yung Pun	**Chan Kam Kwan, Jason**
Chairman	*Director*

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)	—
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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of loans and receivables (continued)

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).

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Convertible notes (continued)

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

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 HK$'000	2006 HK$'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.

7. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk and management objectives and policies *(continued)*

Market risk *(continued)*

(ii) Interest rate risk (continued)

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).

7. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk and management objectives and policies *(continued)*

Liquidity risk *(continued)*

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 HK$'000	3-6 months HK$'000	6-12 months HK$'000	1-2 years HK$'000	2+ years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31/12/2007 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 HK$'000	3-6 months HK$'000	6-12 months HK$'000	1-2 years HK$'000	2+ years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31/12/2006 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

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

(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
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 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
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

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

(3) Other information:

	Year ended 31st December, 2007				Year ended 31st December, 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
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 HK$'000	Hong Kong HK$'000	Consolidated HK$'000	The PRC HK$'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 HK$'000	Hong Kong HK$'000	Consolidated HK$'000	The PRC HK$'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.

11. INCOME TAX EXPENSE *(continued)*

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

16. TOLL ROAD OPERATION RIGHTS *(continued)*

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 *HK$'000*	2006 HK$'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.

20. INTERESTS IN INFRASTRUCTURE JOINT VENTURES *(continued)*

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.

27. CONVERTIBLE NOTES *(continued)*

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

31. ACQUISITION OF SUBSIDIARIES *(continued)*

	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.

FINANCIAL SUMMARY

	THE GROUP				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(restated)	
RESULTS					
Revenue	**25,380**	15,213	29,423	30,109	19,194
(Loss) profit before taxation	**(5,329)**	5,011	14,253	14,122	(30,147)
Income tax (expense) credit	**(700)**	(1,142)	(2,379)	(2,949)	2,339
(Loss) profit for the year	**(6,029)**	3,869	11,874	11,173	(27,808)
Attributable to:					
Equity holders of the Company	**(5,243)**	1,000	5,835	5,673	(22,441)
Minority interests	**(786)**	2,869	6,039	5,500	(5,367)
	(6,029)	3,869	11,874	11,173	(27,808)
(Loss) earnings per share					
— Basic (HK cents)	**(0.77)**	0.17	1.14	1.19	(4.73)
— Diluted (HK cents)	N/A	N/A	1.02	1.00	N/A

	As at 31st December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(restated)	
ASSETS AND LIABILITIES					
Total assets	**442,375**	144,708	156,399	141,936	132,278
Total liabilities	**(156,188)**	(3,297)	(13,785)	(23,715)	(26,160)
	286,187	141,411	142,614	118,221	106,118
Equity attributable to equity holders of the Company	**208,309**	60,175	53,315	31,970	25,367
Minority interests	**77,878**	81,236	89,299	86,251	80,751
Total equity	**286,187**	141,411	142,614	118,221	106,118

Note: The results and the financial position of the Group for the year ended 31st December, 2003 have not been adjusted for the application of Hong Kong Financial Reporting Standards effective on 1st January, 2005, if any.