Wah Nam

International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 0159

2006 Annual Report

Contents

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Cheng Yung Pun *(Chairman)*
Yu Sui Chuen
Cheng Wing See, Nathalie

Non-executive Director

Luo ZhiJian

Independent Non-executive Directors

Au-Yeung Tsan Pong, Davie
Fung Ka Choi
Wong Chu Fung

AUDIT COMMITTEE & REMUNERATION COMMITTEE

Au-Yeung Tsan Pong, Davie *(Chairman)*
Fung Ka Choi
Wong Chu Fung

QUALIFIED ACCOUNTANT

Wong Man Yee

COMPANY SECRETARY

Lai Mei Fong

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

Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL PLACE OF BUSINESS

Room 902, 9/F.
East Ocean Centre
98 Granville Road
Tsimshatsui East
Kowloon, Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

WEBSITE

www.wahnamintl.com

STOCK CODE

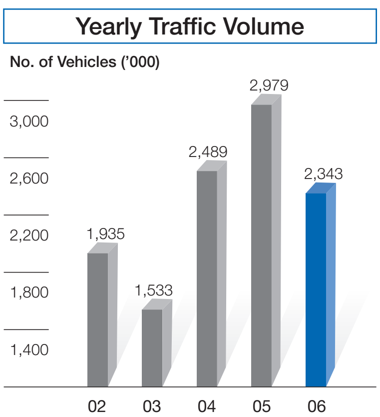
0159 (Main Board of The Stock Exchange of Hong Kong Limited)

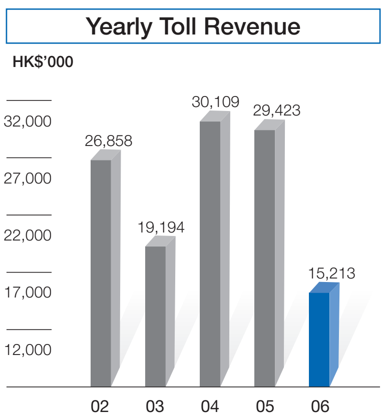
FINANCIAL HIGHLIGHTS

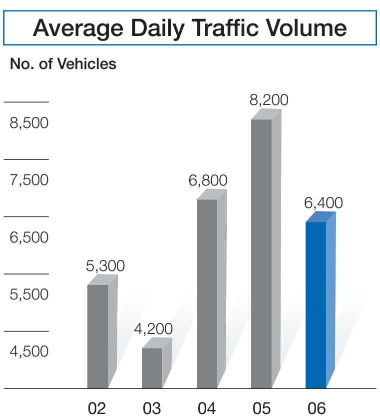
	For the year ended 31st December,		
	2006	2005	Changes
	HK$'000	*HK$'000*	*%*
Gross Toll Revenue	**15,213**	29,423	(48)
Profit before taxation	**5,011**	14,253	(65)
Profit Attributable to Equity Holders of the Company	**1,000**	5,835	(83)
Basic Earnings per Share (cents)	**0.17**	1.14	(85)
Diluted Earnings per Share (cents)	**N/A**	1.02	N/A

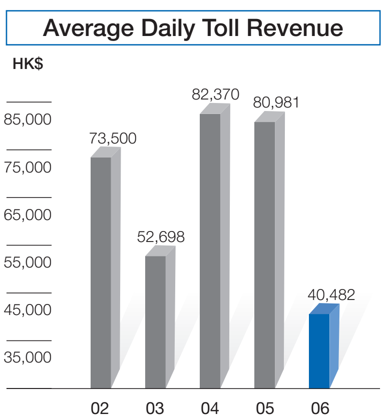
	% of Ownership	**Length in Kilometers**	**No. of Lanes**	**No. of Toll Stations**	**Remaining Year of Operation**
Hangzhou Toll Road	60%	11.934 km	Class 1 dual 2 lanes	1	17
Shanxi-Xiangyi Toll Road and Bridge	45%	44 km	Class 2 dual 1 lane	3	10
Shanxi-Linhong Toll Road and Bridge	45%	44 km	Class 2 dual 1 lane	2	10

HANGZHOU TOLL ROAD









CHAIRMAN'S STATEMENT

To our Shareholders,

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

RESULTS

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

BUSINESS REVIEW

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

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

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

Highlights of revenue comparison were:

Joint Venture in Hangzhou

Hangzhou Toll Road

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

BUSINESS REVIEW *(CONTINUED)*

Joint Ventures in Shanxi

Shanxi-Xiangyi Toll Road and Bridge

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

Shanxi-Linhong Toll Road and Bridge

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

FINANCIAL REVIEW

Liquidity and Financial Resources

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

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

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

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

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

EMPLOYEES AND REMUNERATION POLICY

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

PROSPECTS

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

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

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

APPRECIATION

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

Cheng Yung Pun
Chairman

Hong Kong, 15th March, 2007

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

Aged 55, 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. Cheng is also a director of Leading Highway Limited which has an interest in the shares of the Company. He is the father of Ms. Cheng Wing See, Nathalie, executive director of the Company.

Mr. Yu Sui Chuen

Aged 51, is responsible for overseeing the finance and administration of the Group and assisting the Chairman in the strategic planning. Mr. Yu holds a Higher Diploma in Business Administration majoring in Accounting. Mr. Yu has over 26 years' experience in finance management and administration of which nearly 10 years he has been a member of the management committee of a listed company. He joined the Company in the year 2002.

Ms. Cheng Wing See, Nathalie

Aged 33, is responsible for the business development of the Group. Ms. Cheng has held managerial position in procurement in the plastic toys field for over nine years. Ms. Cheng is the daughter of Mr. Cheng Yung Pun, Chairman of the Company. She joined the Company in the year 2002.

NON-EXECUTIVE DIRECTOR

Mr. Luo ZhiJian

Aged 58, was appointed to the board as non-executive director of the Company in the year 2006. Mr. Luo has almost 20 years' experience in legal professional in the PRC. He is a Secretary-General of China Law Council.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Au-Yeung Tsan Pong, Davie

Aged 61, was appointed to the board as an independent non-executive director and a chairman of the audit committee and remuneration committee of the Company. Mr. Au-Yeung is a Fellow of the Hong Kong Institute of Directors. He holds a Diploma in Management Studies and has over 30 years' experience in business administration of which for over 15 years he has held a senior executive position in a renowned sporting and charitable institution in Hong Kong. He is an independent non-executive director of Yip's Chemical Holdings Limited, a company listed on the main board of the Stock Exchange of Hong Kong Limited. He is also the treasurer of a charitable, non-governmental organization which raises funds and advocates for the well-being of children worldwide, and also a council member of a performing arts group. He joined the Company in the year 2002.

Mr. Fung Ka Choi

Aged 57, was appointed to the board as an independent non-executive director and a member of the audit committee and remuneration committee of the Company. Mr Fung holds a Bachelor's degree in Social Sciences and a Bachelor's degree in Laws, and is an A.C.I.S. He is a practising solicitor in Hong Kong and has approximately 15 years' experience in the legal profession. He has also held executive positions in various charitable and social services organizations which provide social schemes and activities for the youth of Hong Kong. He joined the Company in the year 2002.

Mr. Wong Chu Fung

Aged 47, was appointed to the board as an independent non-executive director and a member of the audit committee and the remuneration committee of the Company. Mr. Wong has over 20 years of experience in accounting and auditing in commercial and accounting firms. He is a member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He is currently the proprietor of Wong C. Fung & Co., Certified Public Accountants. He joined the Company in the year 2004.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of the Company had 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 had 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, in order to protect and enhance the benefits of shareholders. Following sustained development of the Company, the Board and its executive management will continue to monitor the governance policies to ensure that such policies meet the general rules and standards.

BOARD OF DIRECTORS

The Board serving the important function of guiding the management, currently comprises three executive Directors, namely Mr. Cheng Yung Pun (Chairman), Mr. Yu Sui Chuen and Ms. Cheng Wing See, Nathalie, one non-executive director namely Mr. Luo ZhiJian and three independent non-executive Directors ("INEDs") (collectively the "Directors") required under Rule 3.10(1) of the Listing Rules, namely Mr. Au-Yeung Tsan Pong, Davie, Mr. Fung Ka Choi and Mr. Wong Chu Fung, who represent almost half of the Board and include one with appropriate professional qualifications and accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules. Save as Ms. Cheng is the daughter of Mr. Cheng, there is no financial, business, family or other material/relevant relationship between the Directors. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations.

Each of the Directors keeps abreast of his/her 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 Directors as aforesaid, accompanied by their respective biographical details, are listed in the section "Directors' Profile" in this report and that the INEDs are expressly identified in all of the Company's publication such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed.

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, 2005 and for the six months ended 30th June, 2006 respectively; approved the appointment of a non-executive director.

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 to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any 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, Mr. Yu Sui Chuen, Mr. Au-Yeung Tsan Pong, Davie, Mr. Fung Ka Choi and Mr. Wong Chu Fung had attended all meetings. Ms. Cheng Wing See, Nathalie had attended six meetings and Mr. Luo ZhiJian had not attended any meetings since his appointment as director on 16th October, 2006.

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 appointed 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. Accordingly, though none 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.

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

One of the executive Directors assumes the role of Chief Executive Officer ("CEO"). 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 and his role is governed by the chairman mandate (containing the minimum prescribed duties) and stated in the Company's own code on corporate governance practices. 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 complete and reliable, in a timely manner.

DIRECTORS' SECURITIES TRANSACTIONS

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31st December, 2006 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. They 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 Board has established a Remuneration Committee comprising three INEDs, namely Mr. Au-Yeung Tsan Pong, Davie, Mr. Fung Ka Choi and Mr. Wong Chu Fung, appointed by the Board and is chaired by Mr. Au-Yeung Tsan Pong, Davie, which meets at least once a year.

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 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

The Audit Committee, comprising three INEDs namely Mr. Au-Yeung Tsan Pong, Davie, Mr. Fung Ka Choi and Mr. Wong Chu Fung appointed by the Board who have extensive experience in legal and financial matters, meets at least twice a year and is chaired by Mr. Au-Yeung Tsan Pong, Davie. One member is the qualified accountant. None of the Audit Committee members are members of the former or existing auditors of the Company.

AUDIT COMMITTEE *(CONTINUED)*

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.

During the year under review, 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$389,000 (2005: HK$351,000) for statutory audit services. No payments for non-audit services to the auditors were made during the year.

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.

Details of poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with this annual report. The circular also includes details of proposed resolutions, including biographies of each candidates standing for re-election. The results of the poll are published in the newspapers and on the website of the Stock Exchange, www.hkex.com.hk.

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2006.

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 17 and 18 to the consolidated financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 20.

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 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the authorised and issued share capital of the Company are set out in note 24 to the consolidated financial statements.

There was no movement in the Company's share capital during the year.

DISTRIBUTABLE RESERVES

As at 31st December, 2006 and 2005, 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 past period/years is set out on page 45.

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)*
Yu Sui Chuen
Cheng Wing See, Nathalie

Non-executive Director:

Luo ZhiJian (appointed on 16th October, 2006)

Independent non-executive Directors:

Au-Yeung Tsan Pong, Davie
Fung Ka Choi
Wong Chu Fung

In accordance with Clauses 87(1) and (2) of the Company's Bye-laws, Mr. Yu Sui Chuen and Ms. Cheng Wing See, Nathalie shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. In accordance with Clause 86(2) of the Company's Bye-laws, Mr. Luo ZhiJian shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

The term of office of each independent non-executive Director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

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 AND DEBENTURES

As at 31st December, 2006, 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:

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(CONTINUED)*

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	74.89%

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, 2006.

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 29 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 have 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 31 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

Other than the interests disclosed in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in respect of Mr. Cheng Yung Pun, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued share capital of the Company as at 31st December, 2006.

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. One of the executive Directors assumes the role of CEO. The present structure is more suitable to the Company because it can promote the efficient formulation and implementation of the Company's strategy;

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

2. Code provision A.4.1 stipulates that non-executive director should be appointed for a specific term. However, none of the existing non-executive Directors (including independent non-executive) is 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, 2006.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 32 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, 15th March, 2007

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 20 to 44, which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

BASIS FOR QUALIFIED OPINION

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

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

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

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

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 15th March, 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2006

	NOTES	**2006** **HK$'000**	2005 HK$'000
Gross toll revenue	*7*	**15,213**	29,423
Business tax		**(760)**	(1,471)
Net toll revenue		**14,453**	27,952
Direct costs		**(7,545)**	(10,010)
		6,908	17,942
Other income		**1,147**	699
Administrative expenses		**(2,563)**	(3,633)
Finance costs	*9*	**(481)**	(755)
Profit before taxation	*10*	**5,011**	14,253
Income tax expense	*11*	**(1,142)**	(2,379)
Profit for the year		**3,869**	11,874
Attributable to:			
Equity holders of the Company		**1,000**	5,835
Minority interests		**2,869**	6,039
		3,869	11,874
Earnings per share	*14*		
– Basic (cents)		**0.17**	1.14
– Diluted (cents)		**N/A**	1.02

CONSOLIDATED BALANCE SHEET

At 31st December, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Non-current assets			
Toll road operation rights	15	**81,414**	82,820
Property, plant and equipment	16	**459**	598
Interests in infrastructure joint ventures	18	**–**	–
Amounts due from minority shareholders of a subsidiary	19	**48,872**	12,180
Deferred tax assets	25	**4,048**	4,109
		134,793	99,707
Current assets			
Other receivables, deposits and prepayments		**237**	1,991
Amounts due from minority shareholders of a subsidiary	19	**–**	36,836
Bank balances and cash	20	**9,678**	17,865
		9,915	56,692
Current liabilities			
Other payables and accrued charges	21	**1,746**	1,708
Tax liabilities		**215**	1,092
		1,961	2,800
Net current assets		**7,954**	53,892
Total assets less current liabilities		**142,747**	153,599
Capital and reserves			
Share capital	24	**59,484**	59,484
Reserves		**691**	(6,169)
Equity attributable to equity holders of the Company		**60,175**	53,315
Minority interests		**81,236**	89,299
		141,411	142,614
Non-current liabilities			
Amount due to ultimate holding company	22	**–**	6,695
Amount due to a director	22	**1,336**	4,290
		1,336	10,985
		142,747	153,599

The consolidated financial statements on pages 20 to 44 were approved and authorised for issue by the Board of Directors on 15th March, 2007 and are signed on its behalf by:

Cheng Yung Pun
Chairman

Yu Sui Chuen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2006

	Attributable to equity holders of the Company								
	Share capital HK$'000	Statutory surplus reserve HK$'000	Convertible notes reserve HK$'000	Shareholders' contribution reserve HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2005	47,484	1,453	1,585	–	–	(18,552)	31,970	86,251	118,221
Exchange differences arising on translation of foreign operation recognised directly in equity	–	–	–	–	2,766	–	2,766	–	2,766
Profit for the year	–	–	–	–	–	5,835	5,835	6,039	11,874
Total recognised income for the year	–	–	–	–	2,766	5,835	8,601	6,039	14,640
Appropriations	–	762	–	–	–	(762)	–	–	–
Issue of shares due to exercise of convertible notes	12,000	–	–	–	–	–	12,000	–	12,000
Transfer of convertible notes reserve on conversion of convertible notes	–	–	(1,057)	–	–	1,057	–	–	–
Reversal of convertible notes reserve on maturity	–	–	(528)	–	–	528	–	–	–
Deemed contribution from (distribution to) shareholders	–	–	–	744	–	–	744	(2,991)	(2,247)
At 31st December, 2005	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 declared and paid by a subsidiary	–	–	–	–	–	–	–	(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**

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, 2006

	2006	2005
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before taxation	**5,011**	14,253
Adjustments for:		
Amortisation of toll road operation rights	**4,603**	4,485
Depreciation of property, plant and equipment	**161**	193
Interest income	**(1,121)**	(699)
Interest expense	**481**	755
Operating cash flows before movements in working capital	**9,135**	18,987
Decrease (increase) in other receivables, deposits and prepayments	**1,754**	(200)
Increase in other payables and accrued charges	**38**	219
Cash generated from operating activities	**10,927**	19,006
Income tax paid	**(1,866)**	(2,415)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**9,061**	16,591
INVESTING ACTIVITIES		
Interest received	**214**	132
Purchase of property, plant and equipment	**(2)**	(14)
Advance to minority shareholders of a subsidiary	**–**	(46,681)
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	**212**	(46,563)
FINANCING ACTIVITIES		
(Repayment of) advance from a director	**(3,093)**	1,366
Decrease in amount due to ultimate holding company	**(7,080)**	–
Dividend paid to minority shareholders	**(7,804)**	–
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	**(17,977)**	1,366
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(8,704)**	(28,606)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**17,865**	45,597
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**517**	874
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY		
Bank balances and cash	**9,678**	17,865

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 17 and 18 respectively.

The functional currency of the Group is Renminbi. For the purpose of conveniences of the consolidated financial statements users, the consolidated financial statements are presented in Hong Kong dollars.

2. BASIS OF VALUATION OF KEY ASSETS

As at 31st December, 2006, the toll road operation rights were stated at an aggregate carrying value of HK$81,414,000. The directors had asked an independent qualified professional valuer to give an opinion on the value in use of the toll road operation rights as at 31st December, 2006. Given the valuation report, the value in use of the toll road operation rights was valued at HK$125,683,000. Hence, no impairment loss was made. The major assumption made by the valuer is that the government compensation would remain at RMB50,000 per day (approximately HK$18 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 2004 to 2006;
- 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 the valuation date; and
- legal documents from the PRC government on the approval of the toll road operation and toll rates being charged.

At the discretion of the directors of 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 based on the discounted cash flow forecast prepared by the valuer to assess the profitability of HHED. Based on the assumption as mentioned above, HHED will remain profitable and hence, no recoverability problem on the amounts due from minority shareholders or the deferred tax assets was found.

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

In light of the above information provided by the valuer, and the measures 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 were fairly stated as at 31st December, 2006.

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

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. 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 not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures [1]
HKFRS 7	Financial Instruments: Disclosures [1]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [3]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives [4]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment [5]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions [6]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st March, 2006.
[3] Effective for annual periods beginning on or after 1st May, 2006.
[4] Effective for annual periods beginning on or after 1st June, 2006.
[5] Effective for annual periods beginning on or after 1st November, 2006.
[6] Effective for annual periods beginning on or after 1st March, 2007.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs 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.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values upon initial recognition, as explained in the accounting policies set out below.

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.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Basis of consolidation *(continued)*

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.

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 a infrastructure joint ventures 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 ventures.

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

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

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.

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 at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise. For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations 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 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Taxation *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly classified as loans and receivables. The accounting policies adopted in respect of financial assets are set out below.

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 bank balances, other receivables, deposits and amounts due from minority shareholders of a subsidiary are carried at amortised cost using the effective interest method, less any identified impairment losses. 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including other payables and accrued charges, amounts due to a director and ultimate holding company are subsequently measured at amortised cost, using the effective interest rate 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.

For the year ended 31st December, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Derecognition *(continued)*

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.

Impairment

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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the consolidated income statement on a straight line basis over the terms of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

Government grants

Government grants for loss in toll receipts are recognised as income over the year necessary to match them with the related costs. Grants related to expense items are recognised as turnover in the same year as those expenses are charged in the consolidated income statement.

Retirement benefit costs

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

5. CRITICAL KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4, management has made the following estimates that have most significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

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 prepared by Vigers Appraisal & Consulting Limited, an independent qualified professional valuer not connected with the Group to assess the recoverable amount of the toll road operation rights. Vigers Appraisal & Consulting Limited has appropriate qualifications and recent experience in the valuation of similar assets in the relevant locations. The assumptions that the Group considered important in the preparation of the discounted cash flow 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 rights' 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 17 and 19, 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 depends on the amount of government compensation to be received in the future years. The details of the government compensation are set out in notes 7 and 15.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include other receivables, deposits and prepayments, amounts due from minority shareholders of a subsidiary, bank balances and cash, other payables and accrued charges, amounts due to ultimate holding company and a director. 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 has minimal foreign exchange exposure as the Group's transactions are mainly denominated in Renminbi and Hong Kong dollars which are the functional currency of the relevant entities. The Group currently does not have a foreign currency hedging policy. At the balance sheet date, the bank balances and cash of approximately HK$9,536,000 (2005: HK$17,806,000) were denominated in Renminbi which is not freely convertible into other currencies.

(ii) Interest rate risk

The Group's bank balances have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

In addition, the Group has exposure of fair value interest rate risk through the impact of the rate changes on amounts due to ultimate holding company and a director and amounts due from minority shareholders of a subsidiary. The Group does not have interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Credit risk

As at 31st December, 2006, 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 recognised financial assets as stated in the consolidated balance sheet. However, these credit risks of the Group are minimal, as all of the customers paid by cash. Moreover, for the amounts due from minority shareholders of a subsidiary, at the discretion of the directors of HHED, it may be set off against future dividends to be declared by HHED. The details are set out in notes 17 and 19.

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

Apart from the amounts due from minority shareholders of a subsidiary, the Group has no concentration of credit risk, which exposure spread over a number of counterparties.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

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

7. GROSS TOLL REVENUE

The gross toll revenue represents the amounts of toll receipts generated from the toll road and compensation received from Hangzhou City government for the loss of toll receipts from automobiles registered in Hangzhou City.

	2006	2005
	HK$'000	*HK$'000*
Toll receipts	**7,409**	12,076
Hangzhou City government compensation *(note)*	**7,804**	17,347
	15,213	29,423

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, 2006 amounted to HK$7,804,000 (2005: HK$17,347,000) have been included in the turnover for the year. Up to the approval date of these financial statements, the amount of remaining compensation is under negotiation and no compensation agreement has been reached by HHED and the Hangzhou City government on the daily compensation for the year ended 31st December, 2006.

8. SEGMENTAL INFORMATION

The Group is engaged solely in the management and operation of a toll road in the PRC. The identifiable assets and liabilities of the Group are mainly located in the PRC. Accordingly, no analysis by business or geographical segments is presented.

9. FINANCE COSTS

Finance costs represent:

	2006	2005
	HK$'000	*HK$'000*
Effective interest expenses on convertible notes *(note 23)*	**–**	643
Imputed interest on amount due to ultimate holding company	**259**	112
Imputed interest on amount due to a director	**222**	–
	481	755

10. PROFIT BEFORE TAXATION

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of toll road operation rights (included in direct costs)	**4,603**	4,485
Auditors' remuneration	**420**	381
Depreciation of property, plant and equipment	**161**	193
Repairs and renovation costs	**226**	2,665
Staff costs:		
Directors' emoluments *(note 12)*	**310**	300
Retirement benefits scheme contributions	**561**	297
Other staff costs	**1,951**	3,128
Total staff costs	**2,822**	3,725
Operating lease rentals in respect of office premises	**34**	257
Interest income	**(214)**	(132)
Imputed interest income on amounts due from minority shareholders of a subsidiary	**(907)**	(567)

11. INCOME TAX EXPENSE

	2006	2005
	HK$'000	*HK$'000*
Current year:		
Income tax charge	**872**	2,877
Underprovision in prior years	**51**	–
	923	2,877
Deferred tax:		
Current year charge to consolidated income statement *(note 25)*	**219**	213
Tax effect of cessation of concessionary rate	**–**	(711)
	219	(498)
	1,142	2,379

Income tax charge represents the PRC enterprise income tax paid or payable during the year. Enterprise income tax in the PRC has been provided at the prevailing rate of 18% (2005: 18%) on the estimated assessable profit applicable to the Company's subsidiary established in the PRC.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2006

11. INCOME TAX EXPENSE *(CONTINUED)*

The expense for the year can be reconciled to the profit per the consolidated income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation	**5,011**	14,253
Tax at the income tax rate of 18%	**902**	2,566
Tax effect of expenses not deductible for tax purposes	**357**	626
Tax effect of income not taxable for tax purposes	**(168)**	(102)
Tax effect of cessation of concessionary rate	**–**	(711)
Underprovision in respect of prior years	**51**	–
Tax charge for the year	**1,142**	2,379

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

The emoluments paid or payable to each of the seven (2005: six) directors were as follows:

2006

	Executive directors			**Non-executive director**	**Independent non-executive directors**			
	Cheng Yung Pun	**Yu Sui Chuen**	**Cheng Wing See, Nathalie**	**Luo ZhiJian**	**Au-Yeung Tsan Pong, Davie**	**Fung Ka Choi**	**Wong Chu Fung**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Fee	**50**	**50**	**50**	**10**	**50**	**50**	**50**	**310**

2005

	Executive directors			Independent non-executive directors			
	Cheng Yung Pun	Yu Sui Chuen	Cheng Wing See, Nathalie	Au-Yeung Tsan Pong, Davie	Fung Ka Choi	Wong Chu Fung	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fee	50	50	50	50	50	50	300

No director waived any emoluments in the two years ended 31st December, 2006.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(CONTINUED)*

(ii) Employees' emoluments

The emoluments of the four individuals with highest emoluments in the Group (2005: five) were as follows. The remaining highest paid individual is director set out in (i).

	2006 ***HK$'000***	2005 *HK$'000*
Salaries and other benefits	**431**	188
Performance related incentive payments	**8**	638
	439	826

13. DIVIDENDS

No dividend was paid or proposed during the year, nor any dividend has been proposed since the balance sheet date.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

	2006 ***HK$'000***	2005 *HK$'000*
Earnings for the purpose of basic earnings per share	**1,000**	5,835
Effect of dilutive potential ordinary shares:		
Interest on convertible notes		643
Earnings for the purpose of diluted earnings per share		6,478
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**594,838**	511,002
Effect of dilutive potential ordinary shares:		
Convertible notes		126,904
Weighted average number of ordinary shares for the purpose of diluted earnings per share		637,906

The Company has no dilutive potential ordinary shares for the year ended 31st December, 2006.

15. TOLL ROAD OPERATION RIGHTS

	HK$'000
COST	
At 1st January, 2005	116,392
Exchange adjustment	2,238
At 31st December, 2005	118,630
Exchange adjustment	4,745
At 31st December 2006	**123,375**
AMORTISATION AND IMPAIRMENT	
At 1st January, 2005	30,683
Charge for the year	4,485
Exchange adjustment	642
At 31st December, 2005	35,810
Charge for the year	4,603
Exchange adjustment	1,548
At 31st December, 2006	**41,961**
CARRYING VALUES	
At 31st December, 2006	**81,414**
At 31st December, 2005	82,820

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 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 this financial statement, the amount of compensation for the year ended 31st December, 2006, other than amount already received during the year, is under negotiation and no further agreement on the daily compensation has been entered by HHED and the Hangzhou City government. Details of the compensation received by the Group during the year ended 31st December, 2006 are set out in note 7.

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

16. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
COST			
At 1st January, 2005	421	815	1,236
Additions	14	–	14
Exchange adjustment	8	16	24
At 31st December, 2005	443	831	1,274
Additions	2	–	2
Exchange adjustment	18	33	51
At 31st December, 2006	**463**	**864**	**1,327**
DEPRECIATION			
At 1st January, 2005	104	368	472
Provided for the year	62	131	193
Exchange adjustment	3	8	11
At 31st December, 2005	169	507	676
Provided for the year	52	109	161
Exchange adjustment	8	23	31
At 31st December, 2006	**229**	**639**	**868**
CARRYING VALUES			
At 31st December, 2006	**234**	**225**	**459**
At 31st December, 2005	274	324	598

The above items of property, plant and equipment are depreciated on a straight-line basis at the rate of 20% per annum after taking into account of residual value.

17. INTERESTS IN SUBSIDIARIES

Details of the principal subsidiaries held by the Company at 31st December, 2006 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	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	British Virgin Islands	US$2	100%	–	100%	Investment holding
Intrum Sino Limited	British Virgin Islands	US$2	100%	–	100%	Investment holding
HHED*	PRC#	RMB170,000,000	–	60%	60%	Operation of toll road

* *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.

\# *The subsidiary is established in the PRC as Sino-foreign equity joint venture.*

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

18. INTERESTS IN INFRASTRUCTURE JOINT VENTURES

	2006 **HK$'000**	2005 HK$'000
Cost of investment	**–**	–
Share of post-acquisition profits	**–**	–
	–	–

According to the Restructuring Agreement completed on 17th September, 2002, the Group acquired the infrastructure joint ventures at nil consideration. The toll road and toll bridge in each of the infrastructure joint ventures have performed substantially below expectations. Against this background, it was considered that the fair value of these assets estimated with reference to the cash flow projections of the toll roads and toll bridges is negligible.

As at 31st December, 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.

18. INTERESTS IN INFRASTRUCTURE JOINT VENTURES *(CONTINUED)*

The Group has discontinued recognition of its share of losses of the above infrastructure joint ventures. The accounts of unrecognised share of these infrastructure joint ventures, both for the year and cumulatively, are as follows:

	2006	2005
	HK$'000	*HK$'000*
Unrecognised share of losses of jointly controlled entities for the year	**(1,659)**	(473)
Accumulated unrecognised share of losses of jointly controlled entities	**(35,761)**	(34,102)

19. AMOUNTS DUE FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

During the year ended 31st December, 2005, the amount of approximately 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 17.

The amounts are unsecured and interest-free. As at 31st December, 2006, 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:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**–**	36,836
Over one year	**48,872**	12,180
	48,872	49,016

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% (2005: 5.75%) on initial recognition.

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry prevailing interest rate of 1.08% (2005: 1.08%) per annum.

21. OTHER PAYABLES AND ACCRUED CHARGES

Other payables and accrued charges comprise amounts outstanding for on-going costs.

22. AMOUNTS DUE TO A DIRECTOR AND ULTIMATE HOLDING COMPANY

The amounts are unsecured and interest-free. As at 31st December, 2006, the directors confirmed that the amount due to a director is not repayable within the next twelve months. As at 31st December, 2005, the director and the ultimate holding company have confirmed that the amounts due to a director and ultimate holding company are not repayable within the next twelve months. On application of HKAS 39, the fair value of the amounts due to a director and ultimate holding company are determined based on an effective interest rate of 8.00% (2005: 5.75%) on initial recognition.

23. CONVERTIBLE NOTES

The convertible notes payable to the ultimate holding company were unsecured and bore interest at 2% per annum which were payable annually in arrears from the issue date of 17th September, 2002 to the maturity date of 17th September, 2005.

Each convertible note can be converted into an ordinary share of HK$0.10 each in the Company at any time prior to the maturity date at the initial conversion price of HK$0.10 per share (subject to adjustments).

Before the maturity date of 17th September, 2005, the holder of the convertible notes did not have the right to demand repayment of the principal amount of the convertible notes. The holder of the convertible notes is not entitled to vote at general meetings of the Company. The effective interest rate of the liability component is approximately 5.25%.

In September 2005, the ultimate holding company converted HK$12,000,000 into 120,000,000 ordinary shares of HK$0.10 each in the Company. The remaining HK$6,000,000 was settled through current account with the ultimate holding company.

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

	2006	2005
	HK$'000	*HK$'000*
Liability component at the beginning of the year	**–**	17,613
Interest charged *(note 9)*	**–**	643
Interest payable	**–**	(256)
Converted into ordinary shares	**–**	(12,000)
Settled through current account with ultimate holding company	**–**	(6,000)
Liability at the end of the year	**–**	–

24. SHARE CAPITAL

	Number of shares	**Share capital**
	'000	*HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	**800,000**	**80,000**
Issued and fully paid:		
At 1st January, 2005	474,838	47,484
Exercise of convertible notes *(note 23)*	120,000	12,000
At 31st December, 2005 and 31st December, 2006	**594,838**	**59,484**

25. DEFERRED TAX ASSETS

The following is the major deferred tax assets recognised by the Group and movements thereon during the current reporting year.

	Repairs and renovation costs	Impairment loss recognised in respect of toll road operation rights	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1st January, 2005	752	2,784	3,536
Charge to consolidated income statement for the year	(45)	(168)	(213)
Tax effect of cessation of concessionary rate	150	561	711
Exchange rate adjustment	17	58	75
At 31st December, 2005	874	3,235	4,109
Charge to consolidated income statement for the year	(47)	(172)	(219)
Exchange rate adjustment	34	124	158
At 31st December, 2006	**861**	**3,187**	**4,048**

26. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December, 2005 and 2006.

27. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating lease which falls due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	–	132

Operating lease payments represent rentals payable by the Group for its office premises. Lease was early terminated during the year.

28. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2005, convertible notes of HK$12,000,000 were converted into 120,000,000 ordinary shares of HK$0.10 each in the Company. The convertible notes of HK$6,000,000 were settled through the current account with the ultimate holding company. The accrued interest of the convertible notes of approximately HK$824,000 was transferred from other payables and accrued charges to amount due to ultimate holding company.

29. 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 7.98% of the issued share capital of the Company on the adoption date of the Share Option Scheme and the date of this annual 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 approval 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.

30. RETIREMENT BENEFITS SCHEME

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

31. RELATED PARTY TRANSACTIONS

The related party transactions and balances are disclosed in notes 9, 10, 19 and 22 respectively. During the year ended 31st December, 2005, the effective interest expenses on convertible notes of approximately HK$643,000 of which the interest of HK$256,000 was accrued to Leading Highway, the ultimate holding company. Mr. Cheng Yung Pun is the equity owner of Leading Highway. The interest was calculated at 2% per annum in accordance with the convertible notes agreement.

For the year ended 31st December, 2006, rental expenses have been 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:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other short term employee benefits	**463**	552

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

32. POST BALANCE SHEET EVENTS

Subsequent to the year ended 31st December, 2006, the Group had obtained legal opinion from a PRC lawyer. As advised by the 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.

FINANCIAL SUMMARY

THE GROUP

	For the year ended 31st December,				For the period from 1st February to 31st December,
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000* (restated)	*HK$'000*	*HK$'000*
RESULTS					
Gross toll revenue	**15,213**	29,423	30,109	19,194	7,298
Profit (loss) before taxation	**5,011**	14,253	14,122	(30,147)	2,082
Income tax (expense) credit	**(1,142)**	(2,379)	(2,949)	2,339	(607)
Profit for the year	**3,869**	11,874	11,173	(27,808)	1,475
Attributable to:					
Equity holders of the Company	**1,000**	5,835	5,673	(22,441)	324
Minority interests	**2,869**	6,039	5,500	(5,367)	1,151
	3,869	11,874	11,173	(27,808)	1,475
Earnings (loss) per share					
– Basis (cents)	**0.17**	1.14	1.19	(4.73)	1.14
– Diluted (cents)	**N/A**	1.02	1.00	N/A	0.88

	As at 31st December,				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000* (restated)	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES					
Total assets	**144,708**	156,399	141,936	132,278	154,974
Total liabilities	**(3,297)**	(13,785)	(23,715)	(26,160)	(21,048)
	141,411	142,614	118,221	106,118	133,926
Equity attributable to equity holders of the Company	**60,175**	53,315	31,970	25,367	47,808
Minority interests	**81,236**	89,299	86,251	80,751	86,118
	141,411	142,614	118,221	106,118	133,926

Note: The results and the financial position of the Group for the period from 1st February to 31st December, 2002 and the year ended 31st December, 2003 have not been adjusted for the effective of application of Hong Kong Financial Reporting Standards effective on 1st January, 2005, if any.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting (the "AGM") of Wah Nam International Holdings Limited (the "Company") will be held at Garden Room A & B, 2/F., Hotel Nikko Hong Kong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on 25th April, 2007 at 2:30 p.m. for the following purposes:–

1. To receive and consider the audited Financial Statements for the year ended 31st December, 2006 together with the Report of the Directors and Independent Auditor's Report thereon.

2. To re-elect directors and authorise the Board of Directors to fix their remuneration.

3. To re-appoint auditors and authorise the Board of Directors to fix their remuneration.

4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:–

ORDINARY RESOLUTIONS

A. "**THAT**

(a) subject to paragraph (c) of this Resolution, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company; or (iii) the exercise of the share option scheme adopted and approved by the Company pursuant to the written resolutions of sole shareholder of the Company passed on 14th August, 2002; or (iv) an issue of shares in lieu of the whole or part of the dividend on shares of the Company in accordance with the Bye-laws of the Company, shall not exceed 20 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

"Rights Issue" means an offer of shares or offer or issue of warrants or options to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

B. "**THAT**

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase its own shares on the Stock Exchange or any other stock exchange on which the shares of the Company may be listed and is recognized by the Securities and Future Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Listing Rules as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of the shares of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

C. “**THAT**

conditional upon the passing of the Resolutions set out in paragraph 4A and 4B of the notice convening this meeting, the general mandate granted to the Directors of the Company to allot, issue and deal with additional shares of the Company pursuant to the Resolution set out in paragraph 4A of the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with by the Directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the shares of the Company repurchased by the Company under the authority granted pursuant to the Resolution set out in paragraph 4B of the notice convening this meeting.”

By Order of the Board
Lai Mei Fong
Company Secretary

Hong Kong, 23rd March, 2007

Notes:

1. A member entitled to attend and vote at the above meeting (or at any adjournment thereof) is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any shares, any one of such persons may vote at the above meeting (or at any adjournment thereof), either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the above meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

3. In order to be valid, the forms of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority (such certification to be made by either a notary public or a solicitor qualified to practise in Hong Kong), must be deposited with the branch share registrar of the Company in Hong Kong, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the above meeting or any adjournment thereof.

4. The register of members of the Company will be closed from 23rd April, 2007 (Monday) to 25th April, 2007 (Wednesday), both days inclusive, during which period no transfer of shares can be registered. In order to qualify for attending and voting at the above AGM or any adjournment thereof, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company’s Branch Share Registrar in Hong Kong, Secretaries Limited at the above address for registration not later than 4:00 p.m. on 20th April, 2007.

5. An explanatory statement containing further details regarding the proposed Resolutions set out in the notice (except Resolutions 1 to 3) convening the above meeting will be sent to members of the Company together with the annual report 2006.

6. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

7. For the sake of good corporate governance practice, the Chairman intends to demand poll voting for all the resolutions set out in the notice of the annual general meeting.