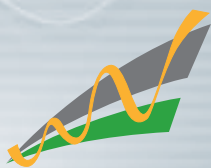


Interim Report 2003



**Wah Nam International Holdings Limited**

**UNAUDITED INTERIM RESULTS**

The Board of Directors (the “Directors”) of Wah Nam International Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003, together with the comparative figures for the corresponding period in 2002 as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 30 June 2003*

	Notes	<b>1 January to 30 June 2003 (Unaudited) HK\$'000</b>	<b>1 February to 30 June 2002 (Unaudited) HK\$'000</b>
Gross income from toll road operations	3	<b>9,290</b>	–
Business tax		<b>(465)</b>	–
Net income from toll road operations		<b>8,825</b>	–
Direct operating costs		<b>(3,750)</b>	–
Other revenue		<b>5,075</b>	–
Administrative expenses		<b>690</b>	–
		<b>(1,848)</b>	(7)
Profit (loss) from operations	4	<b>3,917</b>	(7)
Finance costs – interest on convertible notes		<b>(180)</b>	–
Profit (loss) before taxation		<b>3,737</b>	(7)
Income tax expenses	5	<b>(714)</b>	–
Profit (loss) before minority interests		<b>3,023</b>	(7)
Minority interests		<b>(1,708)</b>	–
Net profit (loss) for the period attributable to shareholders		<b>1,315</b>	(7)
Earnings (loss) per share	6		
Basic (cents)		<b>0.28</b>	(0.70)
Diluted (cents)		<b>0.23</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET***As at 30 June 2003*

	Notes	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
<b>Non-current assets</b>			
Toll road operation rights		<b>112,271</b>	114,892
Goodwill		<b>12,167</b>	12,451
Property, plant and equipment		<b>694</b>	782
		<b>125,132</b>	128,125
<b>Current assets</b>			
Other receivables, deposits and prepayments		<b>642</b>	744
Amount due from a minority shareholder of a subsidiary	7	<b>4,211</b>	4,211
Bank balances and cash		<b>27,159</b>	21,894
		<b>32,012</b>	26,849
<b>Current liabilities</b>			
Other payables and accrued charges		<b>993</b>	1,775
Amount due to a director	8	<b>814</b>	814
Tax liabilities		<b>388</b>	459
		<b>2,195</b>	3,048
Net current assets		<b>29,817</b>	23,801
		<b>154,949</b>	151,926
<b>Capital and reserves</b>			
Share capital		<b>47,484</b>	47,484
Reserves		<b>1,639</b>	324
		<b>49,123</b>	47,808
Minority interests		<b>87,826</b>	86,118
<b>Non-current liabilities</b>			
Convertible notes	9	<b>18,000</b>	18,000
		<b>154,949</b>	151,926

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

	Share capital HK\$'000	Statutory reserves HK\$'000	Retained profit HK\$'000	Total HK\$'000
Issue and allotment of shares at par on incorporation	100	–	–	100
Net loss for the period	–	–	(7)	(7)
At 30 June 2002	100	–	(7)	93
Issue of shares at par on 17 September 2002	39,900	–	–	39,900
Issue of shares as consideration for the acquisition of subsidiaries on 17 September 2002	7,484	–	–	7,484
Net profit for the period	–	–	331	331
Appropriations	–	180	(180)	–
At 31 December 2002	47,484	180	144	47,808
Net profit for the period	–	–	1,315	1,315
<b>At 30 June 2003</b>	<b>47,484</b>	<b>180</b>	<b>1,459</b>	<b>49,123</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 June 2003*

	<b>1 January to 30 June 2003 (Unaudited) HK\$'000</b>	1 February to 30 June 2002 (Unaudited) HK\$'000
Net cash inflow from operating activities	<b>5,128</b>	–
Net cash inflow from investing activities	<b>137</b>	–
	<hr/>	<hr/>
Net increase in cash and cash equivalents	<b>5,265</b>	–
Cash and cash equivalents at beginning of the period	<b>21,894</b>	–
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<b>27,159</b>	–
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>27,159</b>	–
	<hr/> <hr/>	<hr/> <hr/>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The Company was incorporated as an exempted company with limited liability in Bermuda on 1 February 2002 under the Companies Act 1981 of Bermuda. The ordinary shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of introduction with effect from 19 September 2002. Its ultimate holding company is Leading Highway Limited ("Leading Highway"), a company incorporated in the British Virgin Islands.

Pursuant to the implementation of the proposal as contemplated under the restructuring agreement (the "Restructuring Agreement") entered between Wah Nam Group Limited (in Compulsory Liquidation) ("Wah Nam"), Mr. John Robert Lees and Mr. Desmond Chung Seng Chiong (the joint and several liquidators of Wah Nam and collectively referred to as the "Liquidators"), Leading Highway and Ferrier Hodgson (as escrow agent), the Company acquired the interests in three joint ventures (the "Joint Ventures") in the People's Republic of China (the "PRC") from the Liquidators and became the holding company of the Group. Upon the completion of the Restructuring Agreement, the listing of the shares of Wah Nam was withdrawn and the shares of the Company were listed on the Stock Exchange by way of introduction. Further details of the restructuring are set out in the prospectus "Restructuring Proposal" issued by Wah Nam dated 18 July 2002.

The restructuring scheme as stipulated in the Restructuring Agreement became effective on 16 September 2002. As the group reorganisation was not completed on 30 June 2002, for information purposes, the directors have presented the proforma unaudited combined income statement of the Group for the period ended 30 June 2002 on the basis as if the Company had always been the holding company of the Group, and set out the proforma unaudited combined income statement on page 15 of the financial statements. The directors consider that this basis provides meaningful information to the shareholders regarding the historical performance of the Group.

The condensed consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

## 2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared under the historical cost convention.

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002, except that the Group has adopted the following SSAP 12 (Revised) "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

### **Income Taxes**

In the current period, the Group has adopted SSAP 12 (Revised). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods, and accordingly, no prior period adjustment is required.

### 3. SEGMENTAL INFORMATION

The Group engages solely in the management and operation of 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.

### 4. PROFIT (LOSS) FROM OPERATIONS

	<b>1 January to 30 June 2003 (Unaudited) HK\$'000</b>	1 February to 30 June 2002 (Unaudited) HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):		
Amortisation of goodwill (included in administrative expenses)	<b>284</b>	–
Amortisation of toll road operation rights (included in direct operating costs)	<b>2,621</b>	–
Depreciation of property, plant and equipment	<b>108</b>	–
Staff costs (including directors' emoluments)	<b>1,068</b>	–
Operating lease rentals in respect of land and buildings	<b>189</b>	–
Bank interest income	<b>(157)</b>	–
Gain on disposal of property, plant and equipment	<b>(533)</b>	–

### 5. INCOME TAX EXPENSES

Income tax expenses represent the PRC income tax paid or payable during the period. Income tax in the PRC has been provided at the prevailing rate of 15% 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.

No provision for deferred taxation has been made in the financial statements as the amount involved is insignificant.



**6. EARNINGS (LOSS) PER SHARE**

The calculation of basic earnings (loss) per share for the six months ended 30 June 2003 is based on the net profit attributable to shareholders of HK\$1,315,000 (2002: net loss of HK\$7,000) and on the weighted average number of 474,838,000 (2002: 1,000,000) shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2003 is based on the adjusted net profit attributable to shareholders of HK\$1,495,000 and on the weighted average number of 654,838,000 shares after taking into consideration on the potential dilution effect of conversion of convertible notes.

There was no potential dilutive ordinary shares in existence for the six months ended 30 June 2002, and accordingly, no diluted loss per share has been presented.

**7. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY**

The amount is unsecured, interest free and has no fixed repayment terms.

**8. AMOUNT DUE TO A DIRECTOR**

The amount is unsecured, interest free and has no fixed repayment terms.

## 9. CONVERTIBLE NOTES

The convertible notes payable to the ultimate holding company are unsecured and bearing an interest at 2% per annum of which interest is payable annually in arrears from the issue date of 17 September 2002 to the maturity date of 17 September 2005.

The convertible notes can be converted into ordinary shares 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 17 September 2005, the holder of the convertible notes does 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.

## 10. OPERATING LEASE COMMITMENTS

At 30 June 2003, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>30 June 2003 HK\$'000</b>	31 December 2002 HK\$'000
Within one year	271	378
In the second to fifth year inclusive	—	81
	<u>271</u>	<u>459</u>

## INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: nil).

## BUSINESS REVIEW

The Group's unaudited consolidated turnover for the six months ended 30 June 2003 was HK\$9,290,000(2002: HK\$13,838,000), a decrease of 33% as compared to the corresponding period last year. Net profit attributable to shareholders was HK\$1,315,000(2002: HK\$4,128,000), a decrease of 68% as compared to the corresponding period last year. The decrease was mainly caused by the competition of new toll roads in Hangzhou which became operational at the beginning of the year 2003. The severe acute respiratory syndrome (SARS) also slightly affected the revenue in the first half of the year.

Highlights of revenue comparison were:

### Hangzhou toll road

Average daily toll traffic volume for the first half of the year 2003 was approximately 4,029 vehicles (2002: 5,661 vehicles), representing a 29% decrease over the corresponding period last year. Weighted average toll fare per vehicle for the first half of the year 2003 was RMB 13.50 (2002: RMB14.32), representing a 6% decrease over the corresponding period last year.

### Shanxi- Xiangyi toll road

Average daily toll traffic volume for the first half of the year 2003 was approximately 2,892 vehicles (2002: 3,076 vehicles), representing a 6% decrease over the corresponding period last year. Weighted average toll fare per vehicle for the first half of the year 2003 was RMB 10.06 (2002: RMB8.80), representing a 14% increase over the corresponding period last year.

### Shanxi-Linhong toll road

Average daily toll traffic volume for the first half of the year 2003 was approximately 8,045 vehicles (2002: 6,483 vehicles), representing a 24% increase over the corresponding period last year. Weighted average toll fare per vehicle for the first half of the year 2003 was RMB 5.93 (2002: RMB6.48), representing a 8% decrease over the corresponding period last year.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2003, the Group's cash on hand and in bank was in the sum of HK\$27,159,000. The total assets of the Group was HK\$157,144,000, total liabilities of HK\$20,195,000 and the shareholders' equity of HK\$49,123,000. The Group's current ratio was 14.6.

The Group's revenue and expenditures were in Hong Kong dollar and Renminbi. The foreign exchange exposure of the Group is minimal.

As at 30 June 2003, the borrowings of the Group represented HK\$18,000,000 convertible notes which are unsecured, bearing an interest at 2% per annum and can be convertible into ordinary shares of HK\$0.10 each at the initial conversion price of HK\$0.10 per share (subject to adjustments). The gearing ratio (total liabilities/total assets) as at 30 June 2003 was 13%.

In addition to the above, Leading Highway, the ultimate holding company, has unconditionally and irrevocably undertaken to and covenanted with the Stock Exchange that for a period of 18 months after 17 September 2002, it will make financial accommodation available for the Group's working capital requirements.

## PROSPECTS

In light of the competitive environment, the Group needs to keep a tight rein on its operational control, and to strengthen its work force efficiency. We will continue to adopt a prudent approach in managing the business by ensuring that costs are kept in line with the level of business activities. The management will continue to pursue investment opportunities associated with the toll road business in order to broaden our sources of revenue and profitability.

## EMPLOYEES

As at 30 June 2003, the Group had approximately 56 employees. The pay levels of employees are commensurate with their responsibilities, performance and contribution to the Group and reflect the prevailing industry practice.

To provide incentives and rewards to the employees, the Company adopted a share option scheme in August 2002.

## DIRECTORS' INTERESTS IN SHARES

At 30 June 2003, the interests and short positions of the directors and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

Name of director	Nature of interest	Aggregate long position in shares	Percentage of issued share capital
Cheng Yung Pun	Corporate	325,500,000 (Note)	68.55%

Note: These shares are held by Leading Highway, 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. In addition, Leading Highway holds the entire interest of the convertible notes of the Company in an amount of HK\$18,000,000.

Save as disclosed above, none of the directors, or chief executives or their associates had any interests or short positions in any securities of the Company or any of its associated corporations as defined in the SFO, and none of the directors, or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

## SHARE OPTION SCHEME

The share option scheme (the "Option Scheme") of the Company was adopted by the Company pursuant to the written resolutions of the sole shareholder passed on 14 August 2002 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. Under the Option Scheme, the board of directors of the Company may grant options to eligible participants including employees, executives or officers or directors (including executive and non-executive directors) of the Company or any of its subsidiaries, and any suppliers, consultants and advisers who will or have contributed to the Group to subscribe for shares in the Company.

**SHARE OPTION SCHEME** *(Continued)*

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

At 30 June 2003, the total number of shares available for issue under the Option Scheme is 47,483,765 shares which represent 10% of the issued share capital of the Company.

**ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

Other than as disclosed in the section "Directors' Interests in Shares", at no time during the period was the Company, its ultimate holding company or any subsidiaries of its ultimate holding company a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the directors, nor any of their spouses or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such rights.

**DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED PARTY TRANSACTIONS**

The interest on convertible notes of HK\$180,000 was accrued to Leading Highway during the period.

Leading Highway has unconditionally and irrevocably undertaken to and covenanted with the Stock Exchange that for a period of 18 months after 17 September 2002, it will make financial accommodation available or procure that financial accommodation is made available, to the Company for the working capital requirements of the Group on such terms and conditions as the Company and Leading Highway may from time to time agree.

Other than as disclosed above, no contract of significance to which the Company, its ultimate holding company or any subsidiaries of its ultimate holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or any time during the period.

## **SUBSTANTIAL SHAREHOLDERS**

Other than the interests disclosed above in the section "Directors' Interests in Shares", the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no person as having an interest of 5% or more in the issued share capital of the Company as at 30 June 2003.

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

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

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of unaudited consolidated interim financial statements for the six months ended 30 June 2003.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not at any time during the six months ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

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

Hong Kong, 3 September 2003

## ADDITIONAL FINANCIAL INFORMATION

In preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, a group reorganisation was completed on 17 September 2002. As the directors consider the presentation of the financial results for the six months ended 30 June 2002 is appropriate for the Company's shareholders to appraise the Group's current and historical performance, additional financial information is provided by presenting the proforma unaudited combined income statement of the Group for the period ended 30 June 2002.

### PROFORMA UNAUDITED INCOME STATEMENT

For the six months ended 30 June 2003

	Note	Six months ended 30 June	
		2003 (unaudited & consolidated) HK\$'000	2002 (unaudited & combined) HK\$'000
Gross income from toll road operations		9,290	13,838
Business tax		(465)	(692)
Net income from toll road operations		8,825	13,146
Direct operating costs		(3,750)	(3,793)
		5,075	9,353
Other revenue		690	56
Administrative expenses		(1,848)	(1,104)
Profit from operations		3,917	8,305
Finance costs – interest on convertible notes		(180)	–
Profit before taxation		3,737	8,305
Income tax expenses		(714)	(1,330)
Profit before minority interests		3,023	6,975
Minority interests		(1,708)	(2,847)
Net profit for the period attributable to shareholders		1,315	4,128
Earnings per share	2		
– Basic (cents)		0.28	0.87
– Diluted (cents)		0.23	0.66



**NOTES TO THE PROFORMA UNAUDITED INCOME STATEMENT***For the six months ended 30 June 2003***1. BASIS OF PRESENTATION OF PROFORMA UNAUDITED INCOME STATEMENT**

The preparation for the unaudited combined results for the period ended 30 June 2002 includes the results of the Company, its subsidiaries and infrastructure joint ventures on the basis as if the current group structure had been in existence throughout the period ended 30 June 2002.

**2. EARNINGS PER SHARE**

The calculation of basic and diluted earnings per share is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Earnings for the purpose of basic earnings per share (Note)	1,315	4,128
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	<u>180</u>	<u>180</u>
Earnings for the purpose of diluted earnings per share	<u><u>1,495</u></u>	<u><u>4,308</u></u>
	<b>Number of shares</b>	
	<b>2003</b>	2002
	<b>'000</b>	'000
Number of ordinary shares for the purpose of basic earnings per share (Note)	474,838	474,838
Effect of dilutive potential ordinary shares:		
Shares expected to be issued on the conversion of convertible notes	<u>180,000</u>	<u>180,000</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>654,838</u></u>	<u><u>654,838</u></u>

Note: The calculation of the basic earnings per share for the six months ended 30 June 2002 is based on the net profit attributable to shareholders for the period and on 474,838,000 shares in issue during the period on the assumption that the group reorganisation and the new group structure in preparing for the listing of shares had been completed on 1 January 2002.