

On behalf of the board of directors of Wah Nam International Holdings Limited (the "Company") and its subsidiaries (the "Group"), I am delighted to present this annual report for the financial year ended 31 December 2003 to you all.

RESULTS

The audited consolidated results of the Group for the year had recorded a turnover of HK\$19,194,000 (2002: HK\$7,298,000) with the loss attributable to shareholders of HK\$22,441,000 (2002 profit: HK\$324,000). The loss was mainly caused by the competition of a new toll road in Hangzhou which became operational at the beginning of the year 2003, the repairs and renovation of the Hangzhou toll road totalling HK\$5,917,000, and a provision of impairment loss totalling HK\$31,368,000 arising from the re-assessment of the adjustment of the toll road operation rights.

BUSINESS REVIEW

The Group has a joint venture in Hangzhou and two joint ventures in Shanxi. The joint ventures all engage in the management and operation of the toll roads and toll bridges. Owing to the unsatisfactory performance of the joint ventures in Shanxi, nil consideration was paid for at the time of acquisition. Accordingly, it is the Hangzhou joint venture that contributes to the Group's results during the year. As the Company acquired the interests of the Hangzhou joint venture on 17 September 2002, the results for the period ended 31 December 2002 in the consolidated income statement accounted for three months only.

The launch of a new toll road, Fu Yang toll road, in Hangzhou City in early 2003 had effected a drop of revenue of Hangzhou joint venture by approximately 30% during the year. In view of this, the Group intended to carry out certain remedial measures, including cost control and resources reallocation, so as to compensate such decrease.

During the year, the Group had invested approximately HK\$5,917,000 for plantation along the Hangzhou toll road in line with the environmental policy of the Hangzhou City Government. This repairs and renovation of the toll road was regarded as in the interests of shareholders as a whole.

Subsequent to the year-end date, the traffic policies of Hangzhou City Government have been changed with effect from 1 January 2004 that all the automobiles registered in the Hangzhou City are exempted from toll payments for the purpose of enhancing capacity of its road networks and providing efficient services. The Group has been liaising with the local government in order to reach a compensation agreement pursuant to the Instruction No.197 and No. (2003)31 of the Hangzhou City Government on the impact of the adjustment of toll collection. However, up to the date of this annual report, the agreement has not been finalized.

In this regard, the Group had forecasted the traffic volume of the Hangzhou joint venture for the remaining operating term and reassessed the toll road on the basis of traffic volume forecasted. Accordingly, the directors decided to make a provision for impairment loss in the amount of HK\$31,368,000.

Despite the prudent approach in making impairment provision on the Hangzhou joint venture, the Group is preparing to adjust or reverse such provision in the event that there is any significant change in the external business environment and estimates, as well as the said compensation agreement is executed.

Joint venture in Hangzhou***Hangzhou road***

Average daily toll traffic volume in 2003 was approximately 4,200 vehicles (2002: 5,300 vehicles), representing a 21% decrease over the previous year. Weighted average toll fare per vehicle in 2003 was approximately RMB13.3 (2002: RMB14.7), representing a 10% decrease over the previous year.

Joint ventures in Shanxi***Shanxi Xiangyi road and bridge***

Average daily toll traffic volume in 2003 was approximately 3,100 vehicles (2002: 3,200 vehicles), representing a 3% decrease over the previous year. Weighted average toll fare per vehicle in 2003 was approximately RMB13.1 (2002: RMB9.2), representing a 42% increase over the previous year.

Shanxi Linhong road and bridge

Average daily toll traffic volume in 2003 was approximately 11,400 vehicles (2002: 7,200 vehicles), representing a 58% increase over the previous year. Weighted average toll fare per vehicle in 2003 was approximately RMB4.6 (2002: RMB6.0), representing a 23% decrease over the previous year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Group's cash on hand and in bank was in the sum of HK\$33,077,000 (2002: HK\$21,894,000). The total assets and total liabilities of the Group were HK\$132,278,000 (2002: HK\$154,974,000) and HK\$26,160,000 (2002: HK\$21,048,000) respectively. The shareholders' equity was HK\$25,367,000 (2002: HK\$47,808,000). The Group's current ratio was 4.7 (2002: 8.8).

As at 31 December 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 converted into ordinary shares of the Company 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 31 December 2003 was 20% (2002: 14%).

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

As at 31 December 2003, the Group had no significant contingent liabilities and had minimal exposure to foreign exchange risk since the Group's revenue and expenditures were denominated in Hong Kong dollar and in Renminbi.

EMPLOYEES

As at 31 December 2003, the Group had approximately 52 employees (2002: 59). The pay levels of employees are commensurate with their responsibilities, performance and contribution to the Group and are referred to the prevailing industry practice. To provide incentives and rewards to the employees, the Company adopted a share option scheme in August 2002.

PROSPECTS

Despite the prudent approach in making impairment provision on the Hangzhou joint venture, the Group is preparing to adjust or reverse such provision in the event that there is any significant change in the external business environment and estimates, as well as the said compensation agreement is executed.

Besides, with the establishment of the Closer Economic Partnership Arrangement (CEPA) and the access to the World Trade Organization, transport in the PRC becomes more important in the fast-growing development of the economy in the PRC. Both the GDP and the sales of automobile in Hangzhou are optimistically in upward trends. According to the latest statistics supplied by the Hangzhou authorities, the annual increase in GDP was 15% in 2003 and a steady growth in the number of automobile is expected.

The Group has prepared for this unprecedented development opportunities despite the recent change in toll rate adjustments. We are optimistic that satisfactory arrangement by the governmental authorities will be received very soon to compensate the temporary provisions made by the Company.

We will continue to monitor the economic development in the surrounding regions in where the businesses of the joint ventures operate and to seek strategic investments and other suitable opportunities associated with the core business of the Company through the use of the Group's capital resources in order to broaden our sources of revenue and profitability so as to deliver satisfactory return to our shareholders.

APPRECIATION

On behalf of the Board, I would like to express my deepest gratitude to all our Shareholders for their dedication during this difficult year.

Cheng Yung Pun

Chairman

Hong Kong, 24 March 2004