

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 Company is an investment holding company. The principal activities and other details of its subsidiaries and infrastructure joint ventures are set out in notes 14 and 15 to the financial statements, respectively.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income Taxes
SSAP 35	Government Grant

Income Taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. 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. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

Government grants

In accordance with SSAP 35, government grants are now recognised as income over the periods necessary to match them with the related expense. The Group has elected to apply the accounting provisions of SSAP 35 retrospectively.

The adoption of these SSAPs had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with the accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year/period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances with the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition of subsidiaries is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Interests in subsidiaries

Interests in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

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 each venturer has an interest 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.

Where the Group's interest in the joint venture is such that it establishes joint control over the economic activity of the joint venture with other venturers, the Group's interests in the joint ventures are carried at cost plus its share of post-acquisition undistributed reserves of the joint ventures in accordance with the defined cash/profit sharing ratios less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Toll road operation rights

The toll road operation rights are recognised as an asset and stated in the balance sheet at cost less 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.

Property, plant and equipment

Property, plant and equipment are stated at cost less 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 their estimated residual value, using the straight line method, at the rate of 20% per annum.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year/period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year/period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year/period in which the operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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/period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and infrastructure joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit 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/period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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. Impairment losses are recognised as an expense immediately.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the terms of the relevant leases.

Government grants

Government grants are recognised as income over the year/period necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same year/period as those expenses are charged in the income statement and are deducted in reporting the related expense.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense as they fall due.

4. GROSS INCOME FROM TOLL ROAD OPERATIONS

The gross income from toll road operations represents the amounts of toll receipts generated from the toll road during the year/period.

5. 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.

6. (LOSS) PROFIT FROM OPERATIONS

	1.1.2003 to 31.12.2003 <i>HK\$'000</i>	1.2.2002 to 31.12.2002 <i>HK\$'000</i>
(Loss) profit from operations has been arrived at after charging (crediting):		
Amortisation of goodwill (included in administrative expenses)	573	159
Amortisation of toll road operation rights (included in direct operating costs)	5,242	1,500
Auditors' remuneration	268	280
Depreciation of property, plant and equipment	225	67
Repairs and renovation costs	5,917	504
Staff costs:		
Directors' emoluments (<i>note 7</i>)	275	102
Retirement benefits scheme contributions	206	42
Other staff costs	2,100	888
Total staff costs	2,581	1,032
Loss on disposal of property, plant and equipment	16	4
Operating lease rentals in respect of land and buildings	378	98
Compensation received from government for loss of property, plant and equipment	(644)	–
Interest income	(358)	(86)

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

	1.1.2003 to 31.12.2003 HK\$'000	1.2.2002 to 31.12.2002 HK\$'000
Fees to directors:		
Executive directors	175	68
Independent non-executive directors	100	34
	275	102

(ii) Employees' emoluments

The emoluments of the five highest paid employees of the Group for the year/period are as follows:

	1.1.2003 to 31.12.2003 HK\$'000	1.2.2002 to 31.12.2002 HK\$'000
Salaries and other benefits	188	34
Performance related incentive payments	385	214
	573	248

During the year/period, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during the year/period.

8. INCOME TAX (CREDIT) CHARGE

	1.1.2003 to 31.12.2003 HK\$'000	1.2.2002 to 31.12.2002 HK\$'000
Current year:		
Income tax charge	584	607
Deferred tax credit (note 22)	(2,923)	–
	(2,339)	607

Income tax charge represents the PRC income tax paid or payable during the year/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.

The (credit) charge for the year/period can be reconciled to the (loss) profit per the consolidated income statement as follows:

	1.1.2003 to 31.12.2003		1.2.2002 to 31.12.2002	
	HK\$'000	%	HK\$'000	%
(Loss) profit before taxation	(30,147)		2,082	
Tax at the income tax rate of 15%	(4,522)	(15.00)	312	15.00
Tax effect of expenses that are not deductible in determining taxable profit	2,183	7.24	295	14.15
Tax (credit) charge and effective tax rate for the year/period	(2,339)	(7.76)	607	29.15

9. DIVIDENDS

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

10. (LOSS) EARNINGS PER SHARE

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

	1.1.2003 to 31.12.2003 HK\$'000	1.2.2002 to 31.12.2002 HK\$'000
(Loss) earnings for the purpose of basic (loss) earnings per share	(22,441)	324
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	N/A	105
Earnings for the purpose of diluted earnings per share	(22,441)	429
	'000	'000
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	474,838	164,074
Effect of dilutive potential ordinary shares:		
Shares expected to be issued on the conversion of the convertible notes	N/A	61,948
Weighted average number of ordinary shares for the purpose of diluted earnings per share	474,838	226,022

For the year ended 31 December, 2003, the computation of diluted loss per share did not assume the conversion of the Company's outstanding convertible notes since their exercise would result in a decrease in loss per share from continuing ordinary operations.

11. TOLL ROAD OPERATION RIGHTS

	THE GROUP <i>HK\$'000</i>
COST	
At 31 December 2002 and at 31 December 2003	116,392
AMORTISATION AND IMPAIRMENT	
At 1 January 2003	1,500
Charge for the year	5,242
Impairment loss recognised in the year	19,490
At 31 December 2003	26,232
NET BOOK VALUES	
At 31 December 2003	90,160
At 31 December 2002	114,892

The toll road operation rights represent the concession rights over a toll road in Hangzhou ("Hangzhou Toll Road") for 30 years, starting from 4 April 1994 up to 3 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 a subsidiary, Hangzhou Huanan Engineering Development Co., Ltd. ("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.

For the purpose of enhancing capacity of its road networks and providing efficient services, motor vehicles registered in Hangzhou City are allowed to use Hangzhou Toll Road free of charge with effect from 1 January 2004, pursuant to the Instruction No. 197 and No. (2003)31 issued by the Hangzhou City Government on 26 October 2003, therefore, the toll revenue generated by Hangzhou Toll Road will be substantially decreased. The Group has been liaising with the local government in order to reach a compensation agreement for the impact of the adjustment of toll collection. However, up to the date of this annual report, the agreement has not been finalised. As at 31 December 2003, the Group reassessed the recoverable amount of the toll road operation rights and the goodwill arising from the acquisition of HHED assuming no compensation will be received from Hangzhou City Government and based on the present value of the expected future value arising from Hangzhou Toll Road, which is calculated using a discount rate of 6%. Based on this re-assessment, the directors consider an impairment loss of HK\$19,490,000 and HK\$11,878,000 (note 12) are required to be recognised for the toll road operation rights and goodwill respectively.

12. GOODWILL

	THE GROUP <i>HK\$'000</i>
COST	
At 31 December 2002 and at 31 December 2003	12,610
AMORTISATION/IMPAIRMENT	
At 1 January 2003	159
Charge for the year	573
Impairment loss recognised in the year	11,878
At 31 December 2003	12,610
NET BOOK VALUES	
At 31 December 2003	–
At 31 December 2002	12,451

The goodwill is amortised over 22 years because the operating concession rights of the toll road owned by the subsidiary will expire on 3 April 2024.

As at 31 December 2003, the Group reassessed the recoverable amount of its investment in the toll road operations assuming no compensation is received from Hangzhou Government and based on the present value of the expected future value arising from the Hangzhou Toll Road, which is calculated using a discount rate of 6%. Based on this re-assessment, the directors consider an impairment loss of HK\$11,878,000 is required to be recognised for the goodwill arising from the acquisition of the subsidiary engaged in the toll road operations.

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP			
COST			
At 1 January 2003	207	642	849
Additions	47	197	244
Disposals	(1)	(24)	(25)
At 31 December 2003	253	815	1,068
DEPRECIATION			
At 1 January 2003	15	52	67
Provided for the year	35	190	225
Eliminated on disposals	–	(4)	(4)
At 31 December 2003	50	238	288
NET BOOK VALUES			
At 31 December 2003	203	577	780
At 31 December 2002	192	590	782

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares at cost	30,235	30,235
Amounts due from subsidiaries	34,000	34,000
	64,235	64,235
Less: Allowances for amounts due from subsidiaries	(18,926)	–
	45,309	64,235

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repaid in the next twelve months.

Details of the principal subsidiaries held by the Company at 31 December 2003 are as follows:

Name of subsidiaries	Place of incorporation or establishment/ operations	Issued and fully paid share/ registered capital	Equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Cableport Holdings Limited ("Cableport")	British Virgin Islands	US\$2	100%	–	Investment holding
Intrum Sino Limited ("Intrum")	British Virgin Islands	US\$2	100%	–	Investment holding
HHED*	PRC#	RMB170,000,000	–	60%	Operation of toll road

14. INTERESTS IN SUBSIDIARIES (Continued)* *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 advances and dividends. Of the RMB101.5 million, approximately RMB21.1 million was received by WNII in 1995, and in 1996 by way of dividends with the remaining amount of approximately RMB80.4 million received by way of advances made prior to 31 December 2000.

According to a board minute of HHED dated 25 February 2000, WNII agreed 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 have 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 way of advances). 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) will 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.

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/period or any time during the year/period.

15. INTERESTS IN INFRASTRUCTURE JOINT VENTURES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets (<i>note</i>)	-	-

Note: According to the Restructuring Agreement completed on 17 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.

15. INTERESTS IN INFRASTRUCTURE JOINT VENTURES (Continued)

As at 31 December 2003, the Group had interests in the following infrastructure joint ventures:

Name of infrastructure joint ventures	Place of incorporation or establishment/ operations	Issued and fully paid registered capital	Equity interest attributable to the Group Indirectly	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%	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%	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 13 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:

- 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;
- 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
- Thereafterwards, the distribution will be based on the percentage of capital contributed by the respective joint venture partners in the joint ventures.

16. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY**THE GROUP**

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

17. BANK BALANCES AND CASH**THE GROUP**

At the balance sheet date, the bank balances and cash of approximately HK\$33,074,000 (2002: HK\$20,644,000) were denominated in Renminbi which is not freely convertible into other currencies.

18. AMOUNT DUE TO A DIRECTOR**THE GROUP AND THE COMPANY**

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

19. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.1 each		
<i>Authorised:</i>		
On incorporation	1,000	100
Increase on 16 September 2002	799,000	79,900
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At 31 December 2002 and at 31 December 2003	800,000	80,000
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<i>Issued and fully paid:</i>		
On incorporation	1,000	100
Issue of shares on the restructuring	399,000	39,900
Issue of shares as consideration for the acquisition of subsidiaries	74,838	7,484
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At 31 December 2002 and at 31 December 2003	474,838	47,484
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There was no movement in the Company's share capital during the year.

20. ACCUMULATED LOSSES

	Accumulated losses <i>HK\$'000</i>
THE COMPANY	
At 1 February 2002	–
Net loss for the period	1,229
At 31 December 2002	1,229
Net loss for the year	20,855
At 31 December 2003	22,084

21. CONVERTIBLE NOTES**THE GROUP AND THE COMPANY**

The convertible notes payable to the ultimate holding company are unsecured and bear interest at 2% per annum which are 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.

22. DEFERRED TAX ASSET

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

	Impairment loss recognised in respect of toll road operation rights <i>HK\$'000</i>
THE GROUP	
At 1 February 2002 and 1 January 2003	–
Credit to income for the year	2,923
At 31 December 2003	2,923

There were no significant temporary differences for the year in the financial statements of the Company.

23. ACQUISITION OF SUBSIDIARIES

During the period from 1 February 2002 (date of incorporation) to 31 December 2002, the Group acquired 100% equity interest in Cableport and Intrum, and 60% of the registered share capital of HHED for a consideration of HK\$140,061,000. This acquisition had been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$12,610,000.

	2003 HK\$'000	2002 HK\$'000
NET ASSETS ACQUIRED		
Toll road operation rights	–	116,392
Property, plant and equipment	–	871
Other receivables, deposits and prepayments	–	693
Amount due from a minority shareholder	–	4,211
Amount due from former immediate holding company (<i>note</i>)	–	75,826
Bank balances and cash	–	15,951
Other payables and accrued charges	–	(1,056)
Tax liabilities	–	(470)
Minority interests	–	(84,967)
	–	127,451
Goodwill	–	12,610
Total consideration	–	140,061
SATISFIED BY		
Shares allotted	–	7,484
Cash	–	56,751
Amount due to a subsidiary (<i>note</i>)	–	75,826
	–	140,061

Note: During the acquisition of the subsidiaries, the Group had taken up the account payable which was originally due by the former immediate holding company to HHED.

23. ACQUISITION OF SUBSIDIARIES (Continued)

	2003 HK\$'000	2002 HK\$'000
Net cash outflow arising on acquisition:		
Cash consideration	–	56,751
Bank balances and cash acquired	–	(15,951)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	–	40,800

The subsidiaries acquired during the period from 1 February 2002 (date of incorporation) to 31 December 2002 contributed HK\$7,298,000 to the Group's turnover and HK\$3,483,000 to the Group's profit from operations.

24. MAJOR NON-CASH TRANSACTION

During the period from 1 February 2002 (date of incorporation) to 31 December 2002, the Company issued 74,837,652 new ordinary shares of HK\$0.1 each at par as part of the consideration for the acquisition of the interests in subsidiaries as set out in note 23.

25. CONTINGENT LIABILITIES

The Group and the Company had no significant contingent liabilities at the balance sheet date.

26. OPERATING LEASE COMMITMENTS

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	177	378
In the second to fifth year inclusive	–	81
	177	459

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated for an average term of 2 years and rentals are fixed for an average of 2 years.

At 31 December 2003 and 31 December 2002, the Company had no commitments under operating leases.

27. 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. The Option Scheme shall be valid and effective for a period of ten years after the date of its adoption. Under the 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 Option Scheme is 47,483,765 shares which represents 10% of the issued share capital of the Company on the adoption date of the Option Scheme and the date of this annual report.

The total number of shares in respect of which options may be granted under the Option Scheme is not permitted to exceed 10% of the shares of the Company of the adoption date of the 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 Option Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time. The total number of shares in respect of which options may be granted to any eligible participant in any twelve-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, unless prior approval from the Company's shareholders in general meeting has been obtained. Options granted to substantial shareholder or an independent non-executive director of the Company in excess of 0.1% of the Company's share in issue and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders in general meeting.

There is no general requirement that an option must be held to any minimum period before it can be exercised but the board of directors is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. Options offered must be taken up not later than 28 days after the date of offer. A non-refundable remittance of HK\$1 is payable as consideration by the grantee upon acceptance of every grant of option under the 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 Option Scheme.

28. RETIREMENT BENEFITS SCHEME

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The subsidiary is required to contribute average 23% of payroll costs to the retirement benefits scheme to fund the benefits.

The Group contributed an amount of approximately HK\$206,000 (1.2.2002 to 31.12.2002: HK\$42,000) to the above scheme during the year/period.

29. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties as disclosed in notes 16, 18 and 21 respectively, during the year, the interest on convertible notes of approximately HK\$360,000 (1.2.2002 to 31.12.2002: HK\$105,000) was accrued to Leading Highway, the ultimate holding company. The interest was calculated at 2% per annum in accordance with the convertible notes agreement.

Leading Highway has also 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 condition as the Company and Leading Highway may from time to time agree.

30. GOVERNMENT GRANTS

During the year, the Group received a government subsidy of HK\$2,696,000 (1.2.2002 to 31.12.2002: nil) towards the costs of repair and renovation of the Hangzhou Toll Road. The amount has been deducted in reporting repairs and renovation costs for the year.