

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 February 2002 (date of incorporation) to 31 December 2002

1. GENERAL

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 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 Upon the completion of the Restructuring Agreement, the listing of the shares of Wah Nam was withdrawn and the shares of the Company were listed on the Stock Exchange by way of introduction.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 "Prospectus").

The restructuring scheme as stipulated in the Restructuring Agreement became effective on 16 September 2002. Thus, the results of the Joint Ventures, which are accounted for using the acquisition method of accounting, are included in the Group's financial statements from the effective date of acquisition on 17 September 2002.

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 13 and 14 to the financial statements respectively.

2. 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 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 economic useful 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.

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For the period from 1 February 2002 (date of incorporation) to 31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Infrastructure joint ventures

Joint venture arrangements which involve the establishment of a separate entity for investment in and development, operation and management of toll roads and bridges and in which 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.

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 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 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 period in which the operation is disposed of.

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For the period from 1 February 2002 (date of incorporation) to 31 December 2002

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Taxation**

The charge for taxation is based on the results for the period as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

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.

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.

Retirement benefit costs

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

NOTES TO THE FINANCIAL STATEMENTS

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3. 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 period.

4. SEGMENTAL INFORMATION

The Group engages 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.

5. PROFIT FROM OPERATIONS

HK\$'000

Profit from operations has been arrived at after charging:

Amortisation of goodwill (included in administrative expenses)	159
Amortisation of toll road operation rights (included in direct operating costs)	1,500
Auditors' remuneration	280
Depreciation of property, plant and equipment	67
Staff costs (including directors' emoluments)	1,032
Loss on disposal of property, plant and equipment	4
Operating lease rentals in respect of land and buildings	<u>98</u>

NOTES TO THE FINANCIAL STATEMENTS

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6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**(i) Directors' emoluments**

	HK\$'000
Directors' fees	102

The amount disclosed above includes directors' fees of HK\$34,000 payable to independent non-executive directors.

The aggregate emoluments of each of the directors during the period was within the emoluments band ranging from nil to HK\$1,000,000.

(ii) Employees' emoluments

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

	HK\$'000
Salaries and other benefits	34
Performance related incentive payments	214
	<u>248</u>

The aggregate emoluments of each of the five highest paid employees during the period was within the emoluments band ranging from nil to HK\$1,000,000.

During the 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 any emoluments during the period.

7. 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.

8. DIVIDENDS

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

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9. EARNINGS PER SHARE

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

	HK\$'000
Earnings for the purpose of basic earnings per share	324
Effect of dilutive potential ordinary shares:	
Interest on convertible notes	105
	<u> </u>
Earnings for the purpose of diluted earnings per share	<u> 429</u>
	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	164,074
Effect of dilutive potential ordinary shares:	
Shares expected to be issued on the conversion of the convertible notes	61,948
	<u> </u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u> 226,022</u>

10. TOLL ROAD OPERATION RIGHTS

	HK\$'000
COST	
Acquired on acquisition of a subsidiary and at 31 December 2002	116,392
AMORTISATION	
Charge for the period and at 31 December 2002	1,500
	<u> </u>
NET BOOK VALUE	
At 31 December 2002	<u> 114,892</u>

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 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 is 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.

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11. GOODWILL

	THE GROUP HK\$'000
COST	
Arising on acquisition of a subsidiary and at 31 December 2002	12,610
AMORTISATION	
Charge for the period and at 31 December 2002	159
NET BOOK VALUE	
At 31 December 2002	<u>12,451</u>

The goodwill is amortised over 22 years because the concession rights of the toll road owned by the subsidiary acquired during the period will expire on 3 April 2024 and the directors consider that future economic benefits will flow to the Group throughout that period. The recoverable amount of the goodwill relating to the toll road operations will be reconsidered annually to ensure that no impairment loss has arisen.

12. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP			
COST			
Acquired on acquisition of a subsidiary	207	664	871
Disposal	–	(22)	(22)
At 31 December 2002	207	642	849
DEPRECIATION			
Provided for the period and at 31 December 2002	15	52	67
NET BOOK VALUE			
At 31 December 2002	<u>192</u>	<u>590</u>	<u>782</u>

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13. INTERESTS IN SUBSIDIARIES

	THE COMPANY HK\$'000
Unlisted shares at cost	30,235
Amounts due from subsidiaries	34,000
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	64,235
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The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of directors, the amounts will not be repaid in the next twelve months.

The following table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group:

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
杭州華南工程開發有限公司* Hangzhou Huanan Engineering Development Co., Ltd. ("HHED")	PRC*	RMB170,000,000	–	60%	Operation of toll road

* *Dividend payment arrangement concerning the HHED*

The former immediate holding company of HHED, Wah Nam Infrastructure Investment Limited ("WNII") has, under a prior arrangement with the 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 period or any time during the period.

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14. INTERESTS IN INFRASTRUCTURE JOINT VENTURES

THE GROUP
HK\$'000Share of net assets (*Note*)

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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.

As at 31 December 2002, 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.

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

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

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

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

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

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

18. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
On incorporation	1,000	100
Increase on 16 September 2002	799,000	79,900
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At 31 December 2002	<u>800,000</u>	<u>80,000</u>
Issued and fully paid:		
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	<u>474,838</u>	<u>47,484</u>

The Company was incorporated in Bermuda on 1 February 2002 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each, all of which were issued and fully paid to the subscriber on 27 February 2002.

Pursuant to the written resolutions passed by the sole shareholder on 14 August 2002 and the Restructuring Agreement which came to effect on 16 September 2002, the authorised share capital of the Company was increased from HK\$100,000 to HK\$80,000,000 by the creation of additional 799,000,000 shares of HK\$0.1 each.

On 17 September 2002, pursuant to the restructuring scheme, as stipulated in the Restructuring Agreement, the Company issued a total of 399,000,000 new ordinary shares of HK\$0.1 each at par to Leading Highway. On the same date, the Company issued a total of 74,837,652 new ordinary shares of HK\$0.1 each at par as part of the consideration for the acquisition of the 60% equity interest of HHED.

All the shares which were issued during the period rank pari passu with the then existing shares in all respects.

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19. CONVERTIBLE NOTES

THE GROUP AND THE COMPANY

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.

20. ACQUISITION OF SUBSIDIARIES

During the period, 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 has 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.

	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)
	<hr/>
	127,451
Goodwill	12,610
	<hr/>
Total consideration	<u>140,061</u>
SATISFIED BY	
Shares allotted	7,484
Cash	56,751
Amount due to a subsidiary (<i>Note</i>)	75,826
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	<u>140,061</u>

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

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20. ACQUISITION OF SUBSIDIARIES (Continued)

HK\$'000

Net cash outflow arising on acquisition:

Cash consideration	56,751
Bank balances and cash acquired	(15,951)
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Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	40,800
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The subsidiaries acquired during the period contributed HK\$7,298,000 to the Group's turnover, and HK\$3,483,000 to the Group's profit from operations.

21. MAJOR NON-CASH TRANSACTION

During the period, 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 20.

22. CONTINGENT LIABILITIES

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

23. 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 HK\$'000
Within one year	378
In the second to fifth year inclusive	81
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	459
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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 2002, the Company had no commitments under operating leases.

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24. 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 adoption. 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.

At 31 December 2002, the maximum number of shares available for issue in respect of which all options might be granted under the Option Scheme was 47,483,765, representing 10% of the issued share capital of the Company. 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 in issue at any point in time, without prior approval from the Company's shareholders in general meeting. 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, without prior approval from the Company's shareholders in general meeting. Options granted to a 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 price of HK\$1 is payable by the grantee upon acceptance of the grant of every 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.

25. 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\$42,000 to the above scheme during the period.

26. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties as disclosed in notes 15, 17 and 19 to the financial statements respectively, during the period, the interest on convertible notes of approximately 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.