



# Wah Nam International Holdings Limited



Interim Report **2004**

**CORPORATE INFORMATION****BOARD OF DIRECTORS****Executive Directors**

Cheng Yung Pun (*Chairman*)

Yu Sui Chuen

Cheng Wing See, Nathalie

**Independent Non-executive Directors**

Au-Yeung Tsan Pong, Davie

Fung Ka Choi

**COMPANY SECRETARY**

Ho Kit Man, Emily

**AUDITORS**

Deloitte Touche Tohmatsu

26th Floor

Wing On Centre

111 Connaught Road Central

Hong Kong

**SHARE REGISTRARS**

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM08

Bermuda

**HONG KONG BRANCH REGISTRARS**

Secretaries Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

**REGISTERED OFFICE**

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

**PRINCIPAL PLACE OF BUSINESS**

Room 1202, 12th Floor

Peninsula Centre

67 Mody Road

Tsimshatsui East

Kowloon

Hong Kong

**PRINCIPAL BANKER**

Bank of China (Hong Kong) Limited

**STOCK CODE**

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

**OPERATIONAL HIGHLIGHTS**

FINANCIAL HIGHLIGHTS	For the six months ended 30 June		Changes (%)
	2004	2003	
	(HK\$'000)	(HK\$'000)	
Gross income	15,150	9,290	+63
Profit from Operations	8,298	3,917	+112
Net Profit	3,726	1,315	+183
Basic EPS ( <i>cents</i> )	0.78	0.28	+179
Diluted EPS ( <i>cents</i> )	0.60	0.23	+161

	% of ownership	Length in kilometers	No. of lanes	No. of toll stations	Remaining years of operation
Hangzhou Road	60%	11.934km	Class 1 dual 2 lanes	1	20
Shanxi Xiangyi Road and Bridge	45%	44 km	Class 2 dual 1 lane	3	13
Shanxi Linhong Road and Bridge	45%	44 km	Class 2 dual 1 lane	2	13

**UNAUDITED INTERIM RESULTS**

The board (the "Board") of directors (the "Directors") of Wah Nam International Holdings Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004, together with the comparative figures for the corresponding period in 2003 as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	NOTES	For the six months ended 30 June	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Gross income from toll road operations	2	15,150	9,290
Business tax		<u>(757)</u>	<u>(465)</u>
Net income from toll road operations		14,393	8,825
Direct operating costs		<u>(4,907)</u>	<u>(3,750)</u>
		9,486	5,075
Other operating income		211	690
Administrative expenses		<u>(1,399)</u>	<u>(1,848)</u>
Profit from operations	4	8,298	3,917
Finance costs – interest on convertible notes		<u>(180)</u>	<u>(180)</u>
Profit before taxation		8,118	3,737
Income tax charge	5	<u>(1,307)</u>	<u>(714)</u>
Profit before minority interests		6,811	3,023
Minority interests		<u>(3,085)</u>	<u>(1,708)</u>
Net profit for the period attributable to shareholders		<u>3,726</u>	<u>1,315</u>
Earnings per share	6		
Basic ( <i>cents</i> )		<u>0.78</u>	<u>0.28</u>
Diluted ( <i>cents</i> )		<u>0.60</u>	<u>0.23</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

AS AT 30 JUNE 2004

	NOTES	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
<b>Non-current assets</b>			
Toll road operation rights		87,934	90,160
Property, plant and equipment		844	780
Deferred tax asset		2,923	2,923
		<u>91,701</u>	<u>93,863</u>
<b>Current assets</b>			
Other receivables, deposits and prepayments		2,024	611
Amount due from a minority shareholder of a subsidiary	7	4,211	4,211
Taxation recoverable		–	516
Bank balances and cash		39,535	33,077
		<u>45,770</u>	<u>38,415</u>
<b>Current liabilities</b>			
Other payables and accrued charges		3,908	6,851
Amount due to a director	8	2,289	1,164
Tax liabilities		345	–
Bank overdraft		–	145
		<u>6,542</u>	<u>8,160</u>
Net current assets		<u>39,228</u>	<u>30,255</u>
		<u>130,929</u>	<u>124,118</u>
<b>Capital and reserves</b>			
Share capital		47,484	47,484
Reserves		(18,391)	(22,117)
		29,093	25,367
Minority interests		83,836	80,751
<b>Non-current liabilities</b>			
Convertible notes	9	18,000	18,000
		<u>130,929</u>	<u>124,118</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Share capital <i>HK\$'000</i>	Statutory reserves <i>HK\$'000</i>	Accumulated profit (loss) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	47,484	180	144	47,808
Net profit for the period	<u>–</u>	<u>–</u>	<u>1,315</u>	<u>1,315</u>
At 30 June 2003	47,484	180	1,459	49,123
Net loss for the period	<u>–</u>	<u>–</u>	<u>(23,756)</u>	<u>(23,756)</u>
Appropriations	<u>–</u>	<u>786</u>	<u>(786)</u>	<u>–</u>
At 31 December 2003	47,484	966	(23,083)	25,367
Net profit for the period	<u>–</u>	<u>–</u>	<u>3,726</u>	<u>3,726</u>
At 30 June 2004	<u>47,484</u>	<u>966</u>	<u>(19,357)</u>	<u>29,093</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Net cash from operating activities	5,418	5,128
Net cash from investing activities	60	137
Net cash from financing activities	1,125	—
	<hr/>	<hr/>
Net increase in cash and cash equivalents	6,603	5,265
Cash and cash equivalents at beginning of the period	32,932	21,894
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<u>39,535</u>	<u>27,159</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with the Statement of Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. The accounting policies adopted in the preparation of these financial statements are consistent with those set out in the 2003 annual financial statements, except as described below.

Additional accounting policy resulted from new activity during the period

#### Revenue recognition

Government compensation is recognized when the Group's right to receive payments has been established.

### 2. GROSS INCOME FROM TOLL ROAD OPERATIONS

The amounts represent toll receipts generated from the toll road and government compensation received during the period.

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Income from a toll road	6,565	9,290
Government compensation ( <i>Note</i> )	8,585	–
	<u>15,150</u>	<u>9,290</u>

*Note:* The amount represents government compensation for the loss in toll revenue as motor vehicles registered in Hangzhou City are exempted for toll payment as a result of change in traffic policy for the purpose of enhancing the capacity of the Hangzhou road networks with effective from 1 January 2004.

### 3. SEGMENTAL INFORMATION

The Group engages solely in the management and operation of a toll road in the People's Republic of China (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 FROM OPERATIONS

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Amortisation of toll road operation rights (included in direct operating costs)	2,226	2,621
Depreciation of property, plant and equipment	87	108
Staff costs (including directors' emoluments)	1,350	1,068
Operating lease rentals in respect of land and buildings	163	189
Bank interest income	<u>(211)</u>	<u>(157)</u>



**5. INCOME TAX CHARGE**

Income tax charge represents 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.

**6. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit attributable to shareholders of HK\$3,726,000 (2003: HK\$1,315,000) and on the weighted average number of 474,838,000 (2003: 474,838,000) shares in issue during the period.

The calculation of diluted earnings per share is based on the adjusted net profit attributable to shareholders HK\$3,906,000 (2003: HK\$1,495,000) and on the weighted average number of 654,838,000 (2003: 654,838,000) shares after taking into consideration the potential dilution effect of conversion of convertible notes.

**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 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.

**10. RELATED PARTY TRANSACTIONS**

The interest on convertible notes of approximately HK\$180,000 was accrued to the ultimate holding company. The interest was calculated at 2% per annum in accordance with the convertible notes agreement.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

2003 was a difficult year of the Company. We had faced with the impact of the severe acute respiratory syndrome (SARS) over the country, an increase in free traffic flow due to changes in the traffic policies of Hangzhou City Government and certain pressure of diverting the traffic flow due to the opening of a road competitive to the Company's road network. In the first half of 2004, the Company had overcome the hard times and brought to our shareholders an impressive performance.

The Group's unaudited consolidated turnover for the six months ended 30 June 2004 was HK\$15,150,000 (2003: HK\$9,290,000), an increase of 63% as compared to the corresponding period last year. Net profit attributable to shareholders was HK\$3,726,000 (2003: HK\$1,315,000), an increase of 183% as compared to the corresponding period last year. The increase was mainly attributed by the effective management on cost control and the compensation on toll collection from the Hangzhou City Government.

Besides, the launch of Fu Yang toll road in Hangzhou City in early 2003 had initially affected the toll road usage of the Hangzhou road of the Group last year. Owing to the fee collection, the degree of convenience and the time spent on the new Fu Yang route, many toll users had already switched to use the Hangzhou road in the first half of 2004. This preference had apparently increased the toll road traffic volume of the Company accordingly.

In 2003, the Hangzhou city had minimized the number of toll stations on trunk highways and proposed a reform plan for intra-city toll collection for the purpose of enhancing capacity of its road networks. This had affected our financial results and led to a provision for impairment made for the Group. In April this year, the Group had reached an agreement with the Hangzhou City Government that a monthly installment of RMB1,500,000 would be repaid for the Hangzhou toll road of the Group for compensating the change of toll collection which was effective from 1 January 2004.

The computerized toll collection monitoring system had been upgraded for the Hangzhou toll road during the first half of 2004 to strengthen the internal control. The system integrates toll data technologically with monitoring function on toll collection procedures and payment through banks.

A large scale repair and maintenance program was carried out in the first half of 2004 to assure safe, smooth and comfortable driving for road users. The Directors emphasized that such preventive measure can maintain a splendid condition for the toll roads of the Group.

Highlights of revenue comparison were:

#### Hangzhou toll road

Average daily toll traffic volume for the first half of the year 2004 was approximately 7,000 vehicles (2003: 4,000 vehicles), representing a 75% increase over the corresponding period last year. Weighted average toll fare per vehicle for the first half of the year 2004 was RMB12.63 (2003: RMB13.50), 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 2004 was approximately 3,000 vehicles (2003: 2,700 vehicles), representing an 11% increase over the corresponding period last year. Weighted average toll fare per vehicle for the first half of the year 2004 was RMB12.97 (2003: RMB10.76), representing a 21% increase over the corresponding period last year.

### Shanxi-Linhong toll road

Average daily toll traffic volume for the first half of the year 2004 was approximately 8,600 vehicles (2003: 8,000 vehicles), representing an 8% increase over the corresponding period last year. Weighted average toll fare per vehicle for the first half of the year 2004 was RMB6.19 (2003: RMB5.93), representing a 4% increase over the corresponding period last year.

## PROSPECTS

Both the GDP and the sales of automobile in Hangzhou are optimistically expected to be in upward trends. This would inevitably lead to a steady growth in the number of automobiles. A pleasant toll rate compensation was reached with the Hangzhou City Government which will contribute to a brighter full year's results of the Group in the year of 2004.

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.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

As at 30 June 2004, the Group's cash on hand and in bank was in the sum of HK\$39,535,000 (2003: HK\$32,932,000). The total assets and total liabilities of the Group were HK\$137,471,000 (2003: HK\$132,278,000) and HK\$24,542,000 (2003: 26,160,000) respectively. The shareholders' equity was HK\$29,093,000 (2003: HK\$25,367,000). The Group's current ratio was 7.0 (2003: 4.7).

As at 30 June 2004, the borrowings of the Group represented HK\$18,000,000 convertible notes which are unsecured, bearing an interest at 2% per annum and is 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 (i.e. total liabilities/total assets) as at 30 June 2004 was 18% (2003: 20%).

The Group maintained a healthy financial position for the period under review. Net cash provided by operating activities amounted to approximately HK\$5,418,000 (2003: 5,128,000).

There has been no material change in exposure to fluctuation in exchanges rates and details of contingent liabilities since the most recent published annual report.

## EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2004, the Group had approximately 53 employees (2003: 52). 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN EQUITY, UNDERLYING EQUITY OR DEBT SECURITIES

At 30 June 2004, the interests and short positions of each director and chief executives and their associates in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

### Long Positions

#### (a) Ordinary Shares of HK\$0.10 each of the Company

Name	Capacity	Number of Issued Ordinary Shares Held	Percentage of the Issued Share Capital of the Company
<i>Directors</i>			
Cheng Yung Pun	Held by controlled corporations ( <i>note</i> )	325,500,000	68.55%

*Note:* The shares are held by Leading Highway Limited ("LHL"), a company incorporated in the British Virgin Islands with limited liability. The entire issued share capital of LHL is wholly owned by Mr. Cheng Yung Pun.

#### (b) Derivative

LHL holds the entire interest of the convertible notes of the Company in an amount of HK\$18,000,000. 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).

Save as disclosed above, none of the directors, nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2004.

### Directors' Rights to Acquire Shares or Debentures

Save as disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, 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 the chief executive, nor any of 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.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

At 30 June 2004, other than the interests disclosed above in respect of the directors of the Company, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no other person as having an interest of 5% or more in the shares, underlying shares and debentures of the Company and its associated corporations.

## SHARE OPTION SCHEME

The Share Option Scheme of the Company was adopted on 14 August 2002 to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") effected on 1 September 2001. The key terms of the Scheme have been summarized in our 2003 annual report published in March this year.

No options were granted or exercised under the scheme during the year and there were no outstanding share options at 30 June 2004.

At 30 June 2004, the total number of shares available for issue under the Company's share option scheme was 47,483,765 shares which represented 10% of the then issued share capital of the Company on the approval date of the scheme and the date of this report.

## CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the six months period ended 30 June 2004 in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the non-executive directors are not appointed for specific terms as they are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the bye-laws of the Company.

## AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee of the Company were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by The Hong Kong Society of Accountants. The Audit Committee of the Company comprises two independent non-executive directors, namely Mr. Au-Yeung Tsan Pong, Davie, the Chairman, and Mr. Fung Ka Choi. The unaudited interim report for the six months ended 30 June 2004 now reported on had been reviewed by the Audit Committee.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

Hong Kong, 7 September 2004