

To our Shareholders,

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 31st December, 2004 to you all.

## RESULTS

The audited consolidated results of the Group for the year have recorded a turnover increase of 57% to HK\$30,109,000 (2003: HK\$19,194,000) with the net profit of HK\$6,216,000 (2003: loss of HK\$22,441,000). The increase was primarily caused by the increase in traffic flow because of changes in the traffic policies of Hangzhou City Government, the compensation it paid to the Group, and the effective management on cost control. In the year 2004, the Company had overcome the hard times and performed satisfactorily.

## BUSINESS REVIEW

Blessed by the overall national economic growth and the macro control policy of the People's Republic of China (the "PRC"), the total GDP has continuously increased compared with that of the last year. The positive economic environment enhances the development of road transportation and the traffic volume as well. During the year under review, the Group's effort to enhance effective management on cost control and the compensation on toll collection from the Hangzhou City Government yielded positive results.

In early 2003, a new and nearby toll road – Fu Yang toll road was launched which had adversely affected the traffic volume of the Hangzhou toll road. However, owing to the free toll collection policy for intra-city car starting in 2004, the traffic volume of Hangzhou toll road has significantly increased.

In addition, the Group eliminated the negative impact from the reform plan for intra-city toll collection in Hangzhou City which minimized toll stations on trunk highways as it had signed an agreement with the Hangzhou City Government. In the agreement, a daily compensation of RMB50,000 would be repaid for the Hangzhou toll road of the Group for compensating the change of toll collection which was effective from 1st January, 2004. The compensation would take retrospective effect from January 2004 and subject to subsequent annual review.

During the year under review, internal control has been further strengthened on the installation of an upgraded computerized toll collection monitoring system which integrates toll data, streamlines toll collection procedures and payment through banks. A large scale repairs and maintenance program was carried out to assure safe, smooth and comfortable driving for road users. The program had helped to keep the toll road of the Group in good working conditions.

Highlights of revenue comparison were:

### Joint Venture in Hangzhou

#### *Hangzhou toll road*

Average daily toll traffic volume in 2004 was approximately 6,800 vehicles (2003: 4,200 vehicles), representing 62% increase over the previous year. Weighted average toll fare per vehicle in 2004 was approximately RMB12.84 (2003: RMB13.30), representing 3% decrease over the previous year.

## Joint Ventures in Shanxi

### *Shanxi-Xiangyi toll road and bridge*

Average daily toll traffic volume in 2004 was approximately 3,900 vehicles (2003: 3,100 vehicles), representing 26% increase over the previous year. Weighted average toll fare per vehicle in 2004 was RMB13.16 (2003: RMB13.10).

### *Shanxi-Linhong toll road and bridge*

Average daily toll traffic volume in 2004 was approximately 9,300 vehicles (2003: 11,400 vehicles), representing 18% decrease over the previous year. Weighted average toll fare per vehicle in 2004 was RMB6.15 (2003: RMB4.60), representing 34% increase over the previous year.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

As at 31st December, 2004, the Group's cash on hand and in bank was in the sum of HK\$45,597,000 (2003: HK\$33,077,000). The total assets and total liabilities of the Group were HK\$141,936,000 (2003: HK\$132,278,000) and HK\$24,102,000 (2003: HK\$26,160,000) respectively. The shareholders' equity was HK\$31,583,000 (2003: HK\$25,367,000). The Group's current ratio was 2.2 (2003: 4.7).

As at 31st December, 2004, the borrowings of the Group represented HK\$18,000,000 convertible notes which are unsecured, bearing an interest at 2% per annum and can be convertible into ordinary shares of HK\$0.10 each at the initial conversion price of HK\$0.10 per share (subject to adjustments). The gearing ratio (total liabilities/total assets) as at 31st December, 2004 was 17% (2003: 20%).

In addition to the above, Leading Highway Limited, the ultimate holding company, has undertaken to make financial accommodation available for the Group's working capital requirements.

The total capital expenditure during the year amounted to HK\$168,000 (2003: HK\$244,000).

There is no movement on the share capital for the year ended 31st December, 2004.

As at 31st December, 2004, the Group had no significant contingent liabilities and has 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 31st December, 2004, the Group has approximately 52 employees (2003: 52). The pay levels of employees were commensurate with their responsibilities, performance and contribution to the Group and reflected the prevailing industry practice. To provide incentives and rewards to the employees, the Company adopted a share option scheme in August 2002.

## CORPORATE GOVERNANCE

The Group strives for enhancing its standard of corporate governance enabling its corporate transparency and improving investor protection. The Group has planned to adopt a code of corporate governance practices in the year of 2005 to improve its corporate governance to meet with the increasing standard in Hong Kong. Guided by the revised Code on Corporate Governance Practices issued by The Stock Exchange of Hong Kong Limited, the Group will continue to identify the need for changes in its boardroom and management practices with emphasis on compliance, disclosure and recommended best practices.

## PROSPECTS

It has been encouraging to witness the continued economic growth and the rapid rate of urbanisation in the PRC. Its accession into the World Trade Organization and the growing demand for quality road passage will become a major driver for the development of the toll highway industry. In addition, a target toll rate compensation liaising with the Hangzhou City Government will ascertain a steady revenue to the Group. The Board is optimistic that these factors will bring to the Group a brighter full year result in the coming year.

The Board will continue to monitor the economic development in the surrounding regions 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 in order to broaden its sources of revenue and profitability with the ultimate aim to deliver satisfactory return to the shareholders.

## APPRECIATION

I would like to thank you for being our valuable members in the past years, giving us support and trust which in turn motivate us to achieve greater success and fruitful returns. Taking this opportunity, I would also like to thank the other stakeholders, including customers, suppliers and employees, for their contribution to the long-term success of the Group and finally, to give my special thanks to all my colleagues for their commitments and efforts during this significant year.

**Cheng Yung Pun**

*Chairman*

Hong Kong, 30th March, 2005