

Chairman's Statement

To our Shareholders,

On behalf of the board (the "Board") of directors (the "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, 2005.

RESULTS

For the year ended 31st December, 2005, the Group recorded audited consolidated toll revenue of HK\$29,423,000, representing a slight decrease of 2% as compared to HK\$30,109,000 of the last year whilst the profit attributable to equity holders of the Company was HK\$5,835,000, representing an increase in 3% as compared to HK\$5,673,000 of the last year. The decrease in toll revenue was attributable to the intense toll fare competition whilst the modest increase of the profit was mainly caused by cost saving in staff, repair and renovation expenses.

BUSINESS REVIEW

The intra-city toll free collection policy had been launched by the Hangzhou City government to our Hangzhou Toll Road that all Hangzhou registered automobiles were exempted from toll payment and a daily compensation of RMB50,000 was granted to the Group by the Hangzhou City government since the year 2004 for compensating the minimisation of the number of toll station in our trunk highway and the descent of our toll receipt. The Group had successfully renewed the agreement with the Hangzhou City government for continuously granting the said daily compensation for the year 2005 and that the government compensation in aggregate of HK\$17,347,000 was granted by the Hangzhou City government to the Group during the year under review.

Though traffic volume of Hangzhou registered automobiles increased by 26% as compared to the year 2004, toll revenue was decreased owing to the diversion of Hangzhou non-registered automobiles from our Hangzhou Toll Road to its adjacent alternate road and the effect of a series of new government policies implemented by the Zhejiang Province government during the year under review.

On the other hand, the on-going repair and maintenance programs and additional environmental maintenance program for plantation along our Hangzhou Toll Road taken in line with the environmental policy of the Hangzhou City government have achieved our objectives of upgrading toll road operation, enhancing its safety standard and ensuring the smooth, comfortable and superb condition on toll road for road-users.

Highlights of revenue comparison were:

Joint Venture in Hangzhou

Hangzhou Toll Road

Average daily toll traffic volume in 2005 was approximately 8,200 vehicles (2004: 6,800 vehicles), representing a 21% increase over the previous year. Weighted average toll fare per vehicle in 2005 was approximately RMB10.39 (2004: RMB12.84), representing a 19% decrease over the previous year.

Joint Ventures in Shanxi

Shanxi-Xiangyi Toll Road and Bridge

Average daily toll traffic volume in 2005 was approximately 5,100 vehicles (2004: 3,900 vehicles), representing a 31% increase over the previous year. Weighted average toll fare per vehicle in 2005 was approximately RMB13.52 (2004: RMB13.16), representing a 3% increase over the previous year.

Shanxi-Linhong Toll Road and Bridge

Average daily toll traffic volume in 2005 was approximately 10,500 vehicles (2004: 9,300 vehicles), representing a 13% increase over the previous year. Weighted average toll fare per vehicle in 2005 was approximately RMB5.21 (2004: RMB6.15), representing a 15% decrease over the previous year.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31st December, 2005, the Group's cash on hand and in bank was in the sum of HK\$17,865,000 (2004: HK\$45,597,000). The total assets and total liabilities of the Group were HK\$156,399,000 (2004: HK\$141,936,000) and HK\$13,785,000 (2004: HK\$23,715,000) respectively. The equity attributable to equity holders of the Company was HK\$53,315,000 (2004: HK\$31,970,000). The Group's current ratio was 20.2 (2004: 2.2).

In September 2005, Leading Highway Limited ("Leading Highway"), the ultimate holding company converted HK\$12,000,000 convertible notes into 120,000,000 ordinary shares of HK\$0.10 each in the Company and the remaining HK\$6,000,000 was settled through the current account with Leading Highway.

The gearing ratio (total liabilities/total assets) as at 31st December, 2005 was 9% (2004: 17%).

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

The total capital expenditure during the year amounted to HK\$14,000 (2004: HK\$168,000).

As at 31st December, 2005, 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, 2005, the Group has 50 employees (2004: 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.

PROSPECTS

Looking forward, the construction of toll road system and city development in Hangzhou City subject to an unified nationwide planning in the People's Republic of China (the "PRC") and tourism promotional programs to be carried out in Hangzhou City by the Hangzhou City government would enhance the economic development, foster the traffic and transport activities and grow demand for quality road passage, so as to boost the traffic flow of Hangzhou City as well.

A new expressway namely Hang Qian Toll Road (「杭千公路」) ("Hang Qian") running from Hangzhou to Qian Dao Hu (「千島湖」), a popular sightseeing location, had been launched by the end of 2005 which would further intensify toll road competition and would have diversion effect on the traffic flow from our Hangzhou Toll Road to this expressway. The Company would further carry out preventive measures to keep monitoring the traffic flow of Hang Qian and its effect on the profitability of our Hangzhou Toll Road. The Company would enforce its competitive power by providing a safe, smooth and comfortable passage to its road-users.

The Group will continue to maintain its prudent policy and cost saving measures to keep abreast of the profitability of the Group. The Group's effort on effective management and streamlining measures would be enhanced for ensuring the effectiveness and efficiency of the toll road operations of the Group. The Group will continue to press ahead the repair and maintenance projects and strike a balance between safe and smooth operation of roads and cost saving, in order to maximise the profitability of its operation as well.

APPRECIATION

I would like to thank you for being our valuable members in the past years, giving us support and trust. Taking this opportunity, I would also like to thank the management and all our staff's contribution and their commitment to ensuring we master every challenge faced by the Group for the year.

Cheng Yung Pun
Chairman

Hong Kong, 30th March, 2006