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 addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of this annual report.

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 16 and 17 respectively.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

The principal impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company that contain both liability and equity components. Previously, convertible notes were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Because HKAS 32 requires retrospective application, comparative figures for 2004 have been restated. An adjustment for the increase in accumulated losses and convertible notes reserve of approximately HK$655,000 and HK$1,585,000 respectively, decrease in convertible notes amounting to approximately HK$930,000 have been made to the Group's financial statements as at 1st January, 2004.

The accumulated impact of HKAS 32 as at 31st December, 2004 is an increase in accumulated losses and convertible notes reserve of approximately HK$1,198,000 and HK$1,585,000 respectively, decrease in convertible notes amounting to approximately HK$387,000 have been made to the Group's financial statements. The impact for the year ended 31st December, 2004 and 2005 is an increase in finance costs of approximately HK$543,000 and HK$387,000 respectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Convertible notes (continued)

The Group has not early applied the following Standards, Amendments or interpretations ("INTs") that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards, Amendments or INTs will have no material impact on the financial statement of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC) – INT 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment[3]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values upon initial recognition, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. 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 venturers have joint control over the economic activity of the entity 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.

The results and assets and liabilities of infrastructure joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in infrastructure joint ventures are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the infrastructure joint ventures, less any identified impairment loss. When the Group's share of losses of a infrastructure joint ventures equals or exceeds its interest in that infrastructure joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that infrastructure joint ventures.

Where a group entiry transacts with a infrastructure joint ventures of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the infrastructure joint ventures, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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 of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

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. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 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 Group 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified as loans and receivables. The accounting policies adopted in respect of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade and other receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are mainly other financial liabilities other than financial liabilities at fair value through profit and loss ("financial liabilities"). The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including other payables, accrued charges, amounts due to a director and ultimate holding company are subsequently measured at amortised cost, using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Convertible notes

Convertible notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the notes into equity, is included in equity (convertible notes reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component (represented by the option to convert the liability component into ordinary shares of the Company) will be released to the retained earnings upon conversion or when the option remains unexercised at the expiry date. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs (if any) that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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. An impairment loss is 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, but so 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)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as 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. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

Government grants

Government grants for loss in toll receipts are recognised as income over the year necessary to match them with the related costs. Grants related to expense items are recognised in the same year as those expenses are charged in the income statement.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as expenses as when they fall due.

4. CRITICAL KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following estimates that have most significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Toll road operation right impairment

The Group assesses the impairment of the toll road operation right owned by a subsidiary Hangzhou Huanan Engineering Development Co., Ltd. ("HHED") whenever events or changes in circumstances indicate that the carrying amount of the toll road operation right may not be recoverable. The Group has prepared a discount cash flow forecast to assess the recoverable amount of toll road operation rights. The assumptions that the Group considered important in the preparation of the discount cash flow forecast include the following:

- the growth in traffic volume in the forecast periods;
- no change to the toll fee in the forecast periods;
- no change of the government compensation to be received; and
- no significant change to the existing political, legal, rates of taxation in the PRC.

Whenever the carrying amount of the toll road operation right exceeds its recoverable amount, an impairment loss is recognised. The recoverable amount is the higher of the toll road operation right's fair value less unit costs to sell and value in use. The unit costs to sell is the amount obtainable from the sale of the toll road operation right in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing operation of the toll road and from its disposal at the end of its useful life.

4. CRITICAL KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Settlement of the amounts due from minority shareholders of a subsidiary

As disclosed in notes 16 and 18, the amounts due from minority shareholders of a subsidiary will be settled by future dividend to be declared by HHED. The Group has assessed the future operating results of HHED in estimating the timing of future dividend. In case of any revision to the timing of future dividends the carrying amount will be recalculated by computing the present value of the remaining cash flows at the original effective interest rate. Any adjustment to the carrying amount resulting from the revision to the timing of the dividend is recognised as income or expense in profit or loss.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include other receivables, amounts due from minority shareholders of a subsidiary, bank balances and cash, other payables, amounts due to ultimate holding company and a director. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group has minimal foreign exchange exposure as the Group's transactions are mainly denominated in Renminbi and Hong Kong dollars which are the functional currency of the relevant entities. The Group currently does not have a foreign currency hedging policy. At the balance sheet date, the bank balances and cash of approximately HK$17,806,000 (2004: HK$45,425,000) were denominated in Renminbi which is not freely convertible into other currencies.

(ii) Interest rate risk

The Group's bank balances have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure of the short term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

In addition, the Group has exposure of fair value interest rate risk through the impact of the rate changes on short term bank deposits, convertible notes, amounts due to ultimate holding company and a director and amounts due from minority shareholders of a subsidiary. The Group does not have interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group's maximum exposure to credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation with the results that the Group thereby suffers financial loss. However, these credit risks of the Group are minimal, as all of the customers paid by cash and there is no requirement of collateral. Moreover, for the amounts due form minority shareholders of a subsidiary, it will be set off against future dividend to be declared by HHED. The details are set out in notes 16 and 18.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Apart from the amounts due from minority shareholders of a subsidiary, the Group has no concentration of credit risk, which exposure spread over a number of counterparties.

6. GROSS TOLL REVENUE

The gross toll revenue represents the amounts of toll receipts generated from the toll road and compensation received from the Hangzhou City government for the loss of toll receipts from automobiles registered in Hangzhou City.

	2005	2004
	HK$'000	*HK$'000*
Toll receipts	**12,076**	12,845
Hangzhou City government compensation *(Note 32)*	**17,347**	17,264
	29,423	30,109

7. 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.

8. FINANCE COSTS

Finance costs represent:

	2005 HK$'000	2004 HK$'000 (restated)
Effective interest expenses on convertible notes *(Note 23)*	**643**	903
Imputed interest on amount due to ultimate holding company	**112**	–
	755	903

9. PROFIT BEFORE TAXATION

	2005 HK$'000	2004 HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of toll road operation rights (included in direct costs)	**4,485**	4,451
Auditors' remuneration	**381**	314
Depreciation of property, plant and equipment	**193**	184
Repairs and renovation costs	**2,665**	2,963
Staff costs:		
Directors' emoluments *(Note 11)*	**300**	263
Retirement benefits scheme contributions	**297**	345
Other staff costs	**3,128**	3,453
Total staff costs	**3,725**	4,061
Operating lease rentals in respect of office premises	**257**	349
Interest income	**(132)**	(462)
Imputed interest income on amounts due from minority shareholders of a subsidiary	**(567)**	–

10. INCOME TAX EXPENSE

	2005 HK$'000	2004 HK$'000
Current year:		
Income tax charge	**2,877**	2,420
Underprovision in prior years	**–**	1,142
	2,877	3,562
Deferred tax:		
Current year charge (credit) to income statement *(Note 25)*	**213**	(613)
Tax effect of cessation of concessionary rate	**(711)**	–
	(498)	(613)
	2,379	2,949

Income tax charge represents the PRC income tax paid or payable during the year. Income tax in the PRC has been provided at the prevailing rate of 18% (2004: 15%) on the estimated assessable profit applicable to the Company's subsidiary established in the PRC.

In accordance with the "Notice regarding the approval of tax reduction and exemption" issued by the State Tax Bureau of Hangzhou City dated 13th December, 2000. HHED was exempted from local tax rate of 3% from the financial year 2000 to 2004. Therefore, the tax rate changed from 15% in the year 2004 to 18% in the year 2005.

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 expense for the year can be reconciled to the profit per the consolidated income statement as follows:

	2005 HK$'000	2004 HK$'000 (restated)
Profit before taxation	**14,253**	14,122
Tax at the income tax rate of 18% (2004: 15%)	**2,566**	2,118
Tax effect of expenses not deductible for tax purposes	**626**	81
Tax effect of income not taxable for tax purposes	**(102)**	(392)
Tax effect of cessation of concessionary rate	**(711)**	–
Underprovision in respect of prior years	**–**	1,142
Tax charge for the year	**2,379**	2,949

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

The emoluments paid or payable to each of the six (2004: six) directors were as follows:

2005

	Executive directors			Independent non-executive directors			
	Cheng Yung Pun *HK$'000*	**Yu Sui Chuen** *HK$'000*	**Cheng Wing See, Nathalie** *HK$'000*	**Au-Yeung Tsan Pong, Davie** *HK$'000*	**Fung Ka Choi** *HK$'000*	**Wong Chu Fung** *HK$'000*	**Total** *HK$'000*
Fee	**50**	**50**	**50**	**50**	**50**	**50**	**300**

2004

	Executive directors			Independent non-executive directors			
	Cheng Yung Pun *HK$'000*	Yu Sui Chuen *HK$'000*	Cheng Wing See, Nathalie *HK$'000*	Au-Yeung Tsan Pong, Davie *HK$'000*	Fung Ka Choi *HK$'000*	Wong Chu Fung *HK$'000*	Total *HK$'000*
Fee	50	50	50	50	50	13	263

No director waived any emoluments in the two years ended 31st December, 2005.

(ii) Employees' emoluments

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

	2005 *HK$'000*	2004 *HK$'000*
Salaries and other benefits	**188**	187
Performance related incentive payments	**638**	563
	826	750

None of the five highest paid employees of the Group are directors.

12. DIVIDENDS

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

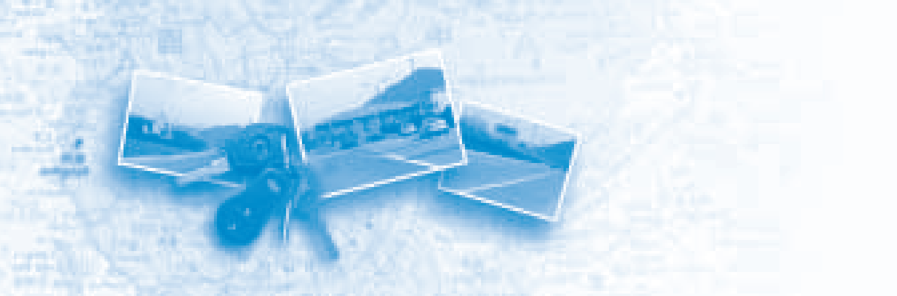
13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

	2005	2004
	HK$'000	*HK$'000* (restated)
Earnings for the purpose of basic earnings per share	**5,835**	5,673
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**643**	903
Earnings for the purpose of diluted earnings per share	**6,478**	6,576
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**511,002**	474,838
Effect of dilutive potential ordinary shares:		
Convertible notes	**126,904**	180,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**637,906**	654,838

The following table summaries the impact on both basic and diluted earnings per share as a result of:

	Impact on basic earnings per share		**Impact on diluted earnings per share**	
	2005	2004	**2005**	2004
	cents	*cents*	***cents***	*cents*
Reported figures before adjustments	**1.14**	1.31	**1.02**	1.00
Adjustments arising from changes in accounting policies	**–**	(0.12)	**–**	–
Restated	**1.14**	1.19	**1.02**	1.00

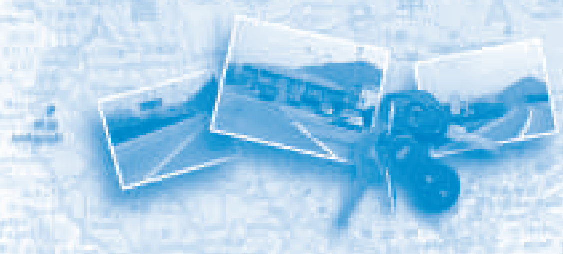


14. TOLL ROAD OPERATION RIGHTS

	HK$'000
COST	
At 1st January, 2004, 31st December, 2004 and 1st January, 2005	116,392
Exchange adjustment	2,238
At 31st December, 2005	**118,630**
AMORTISATION AND IMPAIRMENT	
At 1st January, 2004	26,232
Charge for the year	4,451
At 31st December, 2004	30,683
Charge for the year	4,485
Exchange adjustment	642
At 31st December, 2005	**35,810**
CARRYING VALUES	
At 31st December, 2005	**82,820**
At 31st December, 2004	85,709

The toll road operation rights represent the concession rights over a toll road in Hangzhou (the "Hangzhou Toll Road") for 30 years, starting from 4th April, 1994 up to 3rd 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 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.

In January 2005, HHED entered an agreement with the Hangzhou City government that a daily compensation of RMB50,000 (2004: RMB50,000) was granted to HHED for the loss of toll receipts. The compensation is subject to annual review by the Hangzhou City government and the agreement will be evaluated year by year. Details of the compensation received by the Group are set out in note 32.



15. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST			
At 1st January, 2004	253	815	1,068
Additions	168	–	168
At 31st December, 2004	421	815	1,236
Additions	14	–	14
Exchange adjustment	8	16	24
At 31st December, 2005	**443**	**831**	**1,274**
DEPRECIATION			
At 1st January, 2004	50	238	288
Provided for the year	54	130	184
At 31st December, 2004	104	368	472
Provided for the year	62	131	193
Exchange adjustment	3	8	11
At 31st December, 2005	**169**	**507**	**676**
CARRYING VALUES			
At 31st December, 2005	**274**	**324**	**598**
At 31st December, 2004	317	447	764

The above items of property, plant and equipment are depreciated on a straight-line basis at the rate of 20% per annum after taking into account of residual value.

16. INTERESTS IN SUBSIDIARIES

Details of the principal subsidiaries held by the Company at 31st December, 2005 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Issued and fully paid share/ registered capital	Proportion ownership interest held by the Company		Proportion of voting power held by the Company	Principal activities
			Directly	Indirectly		
Cableport Holdings Limited	British Virgin Islands	US$2	100%	–	100%	Investment holding
Intrum Sino Limited	British Virgin Islands	US$2	100%	–	100%	Investment holding
HHED*	PRC#	RMB170,000,000	–	60%	60%	Operation of toll road

* *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 and dividends. Of the RMB101.5 million, approximately RMB21.1 million was received by WNII in 1995 and 1996 by way of dividends with the remaining amount of approximately RMB80.4 million received by cash prior to 31st December, 2000.

According to a board minute of HHED dated 25th February, 2000, WNII agreed that 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 had 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 cash). 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) would 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.

During the year ended 31st December, 2005, an amount of approximately RMB49 million was recovered by Hangzhou Traffic and Luda in HHED according to the understanding reached upon the acquisition of HHED in 2002. Details of the acquisition and the settlement arrangement are set out in the prospectus dated 18th July, 2002.

\# *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 or any time during the year.

17. INTERESTS IN INFRASTRUCTURE JOINT VENTURES

	2005 HK$'000	2004 HK$'000
Cost of investment	–	–
Share of post-acquisition profits	–	–
	–	–

According to the Restructuring Agreement completed on 17th 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 31st December, 2005, the Group had interests in the following infrastructure joint ventures:

Name of infrastructure joint venture	Place of incorporation or establishment/ operations	Issued and fully paid registered capital	Proportion ownership interest held by the Group Indirectly	Proportion of voting power held by the Company	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%	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%	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 13th 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:

(a) 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;

(b) 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

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

17. INTERESTS IN INFRASTRUCTURE JOINT VENTURES *(continued)*

The Group has discontinued recognition of its share of losses of the above infrastructure joint ventures. The accounts of unrecognised share of these infrastructure joint ventures, both for the year and cumulatively, are as follows:

	2005	2004
	HK$'000	*HK$'000*
Unrecognised share of losses of jointly controlled entities for the year	**(473)**	(427)
Accumulated unrecognised share of losses of jointly controlled entities	**(34,102)**	(33,629)

18. AMOUNTS DUE FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

During the year, the amount of approximately RMB49 million was recovered by the minority shareholders in HHED according to the understanding reached upon the acquisition of the HHED in 2002. Details of the arrangement are set out in note 16.

The amounts are unsecured, interest-free. In the opinion of the directors, the amounts due from minority shareholders of a subsidiary will be settled through future dividends to be declared by HHED as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**36,836**	4,211
Over one year	**12,180**	-
	49,016	4,211

On application of HKAS 39, the fair value of the amounts due from minority shareholders of a subsidiary is determined based on an effective interest rate of 5.75% on initial recognition. The fair value of the amounts due from minority shareholders of a subsidiary at 31st December, 2005 was approximate to the corresponding carrying amount.

19. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The directors consider that the fair value of the Group's other receivables at 31st December, 2005 was approximate to the corresponding carrying amount.

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry prevailing interest rate of 1.08% (2004: 1.08%) per annum. The fair value of bank deposits at 31st December, 2005 approximates to the corresponding carrying amount.

21. OTHER PAYABLES AND ACCRUED CHARGES

Other payables and accrued charges comprise amounts outstanding for on-going costs.

The fair value of the Group's other payables at 31st December, 2005 approximates to the corresponding carrying amount.

22. AMOUNTS DUE TO A DIRECTOR AND ULTIMATE HOLDING COMPANY

The amounts are unsecured and interest-free. The director and the ultimate holding company have confirmed that the principle amounts of the amounts due to a director and ultimate holding company and the accrued interests are not repayable within the next twelve months. On application of HKAS 39, the fair value of the amounts due to a director and ultimate holding company are determined based on an effective interest rate of 5.75% on initial recognition.

The fair value of the amounts due to a director and ultimate holding company at 31st December, 2005 was approximate to the corresponding carrying amount.

23. CONVERTIBLE NOTES

The convertible notes payable to the ultimate holding company were unsecured and bear interest at 2% per annum which are payable annually in arrears from the issue date of 17th September, 2002 to the maturity date of 17th September, 2005.

Each convertible note can be converted into an ordinary share 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 17th September, 2005, the holder of the convertible notes did 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.

In September 2005, the ultimate holding company converted HK$12,000,000 into 120,000,000 ordinary shares of HK$0.10 each in the Company. The remaining HK$6,000,000 was settled through current account with the ultimate holding company.

The convertible notes contain two components, liability and equity elements. Upon the application of HKAS 32 "Financial Instruments: Disclosure and Presentation" (see Note 2 for details), the convertible notes were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity heading "convertible notes reserve". The effective interest rate of the liability component is approximately 5.25%.

23. CONVERTIBLE NOTES *(continued)*

The movement of the liability component of the convertible notes for the year is set out below:

	2005 *HK$'000*	2004 *HK$'000*
Liability component at the beginning of the year	**17,613**	17,070
Interest charged *(Note 8)*	**643**	903
Interest paid	**(256)**	(360)
Converted into ordinary shares	**(12,000)**	-
Settled through current account with ultimate holding company	**(6,000)**	-
Liability at the end of the year	**–**	17,613

The fair value of the liability component of the convertible notes at 31st December, 2004, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date, was approximately HK$17,613,000.

24. SHARE CAPITAL

	Number of shares *'000*	**Share capital** *HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st January, 2004, 31st December, 2004 and 31st December, 2005	**800,000**	**80,000**
Issued and fully paid:		
At 1st January, 2004 and 31st December, 2004	474,838	47,484
Exercise of convertible notes *(Note 23)*	120,000	12,000
At 31st December, 2005	**594,838**	**59,484**

25. DEFERRED TAX ASSET

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

	Capitalisation of repairs and renovation HK$'000	Impairment loss recognised in respect of toll road operation rights HK$'000	Total HK$'000
At 1st January, 2004	–	2,923	2,923
Credit (charge) to income for the year	752	(139)	613
At 31st December, 2004	752	2,784	3,536
Charge to income for the year	(45)	(168)	(213)
Tax effect of cessation of concessionary rate	150	561	711
Exchange rate adjustment	17	58	75
At 31st December, 2005	**874**	**3,235**	**4,109**

26. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December, 2004 and 2005.

27. 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:

	2005 ***HK$'000***	2004 *HK$'000*
Within one year	**132**	160

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

28. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2005, convertible notes of HK$12,000,000 (2004: nil) were converted into 120,000,000 (2004: nil) ordinary shares of HK$0.10 each in the Company. The convertible notes of HK$6,000,000 were settled through the current account with the ultimate holding company. The accrued interest of the convertible notes of approximately HK$824,000 was transferred from other payables and accrued charges to amount due to ultimate holding company.

29. SHARE OPTION SCHEME

The share option scheme (the "Share Option Scheme") of the Company was adopted by the Company pursuant to the written resolutions of the sole shareholder passed on 14th August, 2002 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. The Share Option Scheme is valid and effective for a period of ten years after the date of its adoption. Under the Share 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 Share Option Scheme is 47,483,765 shares which represents 7.98% of the issued share capital of the Company on the adoption date of the Share Option Scheme and the date of this annual report.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company on the adoption date of the Share 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 Share 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 approval 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 Share 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 Share Option Scheme.

30. 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 only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

31. RELATED PARTY TRANSACTIONS

The related party transactions and balances are disclosed in notes 8, 9, 18 and 22 respectively, during the year, the effective interest expenses on convertible notes of approximately HK$643,000 (2004: HK$903,000) of which the interest of HK$256,000 (2004: HK$360,000) was accrued to Leading Highway, the ultimate holding company. Mr. Cheng Yung Pun is the equity owner of Leading Highway. The interest was calculated at 2% per annum in accordance with the convertible notes agreement.

Leading Highway had also unconditionally and irrevocably undertaken to and convenanted with the Stock Exchange that for a period of 18 months after 17th September, 2002, it would make financial accommodation available or procure that financial accommodation was made available, to the Company for the working capital requirements of the Group on such terms and condition as the Company and Leading Highway might from time to time agree. This undertaking was expired on 17th March, 2004.

Leading Highway has agreed to provide adequate fund to enable the Company to meet in full its financial obligations as they fall due for the foreseeable future.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005 ***HK$'000***	2004 *HK$'000*
Salaries and other short term employee benefits	**552**	479

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

32. GOVERNMENT COMPENSATION

Pursuant to Instruction No. 197 and No. (2003) 31 issued by the Hangzhou City government on 26th October, 2003, with effective from 1st January, 2004 that all the automobiles registered in Hangzhou City are exempted from toll payments for the purpose of enhancing capacity of its road networks and providing efficient services. In order to compensate HHED for the loss of toll receipts collected from automobiles registered in Hangzhou City, a daily compensation of RMB50,000 was granted to HHED. The total amount received or receivable during the year ended 31st December, 2005 amounted to HK$17,347,000 (2004: HK$17,264,000) have been included in the turnover for the year.