

DIRECTORS' REPORT

The directors present their first annual report and the audited financial statements for the period from 1 February 2002 (date of incorporation) to 31 December 2002.

Pursuant to the written resolutions of the sole member of the Company passed on 2 May 2002, the name of the Company was changed from Wah Nam Holdings Limited to Wah Nam International Holdings Limited.

CORPORATE REORGANISATION

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.

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 Limited ("Leading Highway") and Ferrier Hodgson (as escrow agent), the Company acquired the interests in three joint ventures (the "Joint Ventures") in the People's Republic of China (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 Upon the completion of the Restructuring Agreement, the listing of the shares of Wah Nam was withdrawn and the shares of the Company were listed on the Stock Exchange by way of introduction.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 consolidated financial statements of the Group are set out on pages 16 to 33 of the financial statements.

For information purposes, the directors have prepared the proforma unaudited combined income statement of the Group for the year ended 31 December 2002 on the basis as if the Company had always been the holding company of the Group, and set out the proforma unaudited combined income statement on page 34 of the financial statements. The directors consider that this basis provides meaningful information to the shareholders regarding the historical performance of the Group.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's subsidiaries and infrastructure joint ventures are set out in notes 13 and 14 to the financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the period from 1 February 2002 (date of incorporation) to 31 December 2002 are set out in the consolidated income statement on page 16.

The directors do not recommend the payment of a dividend and propose that the profit for the period be retained.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the period in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

DIRECTORS' REPORT**SHARE CAPITAL**

Details of movements in the authorised and issue share capital of the Company since its incorporation are set out in note 18 to the financial statements.

CONVERTIBLE NOTES

On 17 September 2002, the Company issued convertible notes in an aggregate principal amount of HK\$18,000,000 to Leading Highway, its ultimate holding company. The convertible notes are convertible into ordinary shares of HK\$0.10 each in the Company at the initial conversion price of HK\$0.10 per share (subject to adjustments). The convertible notes are unsecured and bearing an interest at 2% per annum which is payable annually in arrears from the date of issue to the maturity date of 17 September 2005. As at 31 December 2002, the outstanding amount of the convertible notes was HK\$18,000,000.

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company has no reserve available for distribution to the shareholders.

DIRECTORS AND DIRECTORS' SERVICES CONTRACTS

The directors of the Company during the period and up to the date of this report were as follows:

Executive directors:

Mr. Cheng Yung Pun (<i>Chairman</i>)	(appointed on 27 February 2002)
Mr. Yu Sui Chuen	(appointed on 13 May 2002)
Ms. Cheng Wing See, Nathalie	(appointed on 27 February 2002)
Mr. Lee Sai Keung, Daniel	(appointed on 13 May 2002)

Independent non-executive directors:

Mr. Au-Yeung Tsan Pong, Davie	(appointed on 13 May 2002)
Mr. Fung Ka Choi	(appointed on 13 May 2002)

In accordance with Clause 87(1) & (2) of the Company's Bye-laws, Ms. Cheng Wing See, Nathalie retires and, being eligible, offers herself for re-election at the forthcoming annual general meeting.

Each of the executive directors and non-executive directors has entered into a service contract with the Company for an initial fixed term of two years commencing from 1 September 2002, which will continue thereafter unless terminated by the executive directors/the Company serving not less than six months' written notice on each other or by the non-executive directors/the Company serving not less than one month written notice on each other respectively.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

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DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of ordinary shares held	
	Corporate interest	Percentage of issued share capital
Mr. Cheng Yung Pun	325,500,000 <i>(Note)</i>	68.55%

Note:

These shares are held by Leading Highway, a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is wholly owned by Mr. Cheng Yung Pun. In addition, Leading Highway holds the entire interest of the convertible notes of the Company in an amount of HK\$18,000,000.

Save as disclosed above, none of the directors, or chief executives or their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors, or chief executives, or 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 during the period.

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. Particulars of the Option Scheme are set out in note 24 to the financial statements.

There has been no option granted since the adoption of the Option Scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in the section "Directors' Interests in Shares", at no time during the period was the Company, its ultimate holding company or any subsidiaries of its ultimate holding company a 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 any of their spouses or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such rights.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTION

The interest on convertible notes of approximately HK\$105,000 was accrued to Leading Highway during the period.

Leading Highway has 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 conditions as the Company and Leading Highway may from time to time agree.

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Other than as disclosed above, no contracts of significance to which the Company, its ultimate holding company or any subsidiaries of its ultimate holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed in the section "Directors' Interests in Shares", the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company as at 31 December 2002.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive right under the Company's Bye-laws, or the laws in Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed shares of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The Group had no major customers due to the nature of the principal activities of the Group.

During the period from 1 February 2002 (date of incorporation) to 31 December 2002, the total operating and administrative expenses attributable to the five largest suppliers accounted for less than 30% of the Group's total operating and administrative expenses.

AUDIT COMMITTEE

The Company set up an audit committee on 19 September 2002 with written terms of reference in compliance with the Code of Best Practice set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has two members comprising Messrs. Au-Yeung Tsan Pong, Davie and Fung Ka Choi, both being independent non-executive directors.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied in the period from its listing date to 31 December 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that since the directors did not have control or access to the books and records of the Joint Ventures, which are the key assets of the Group, until the completion of the Restructuring Agreement on 17 September 2002, it was not feasible for the Company to compose the interim results in time and therefore constituted a delay in the announcement of interim results.

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AUDITORS

Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company during the period. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

By Order of the Board

Cheng Yung Pun
Chairman

Hong Kong, 26 March 2003