

(For the year ended 31st December, 2004)

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 Company is an investment holding company. The principal activities and other details of its subsidiaries and infrastructure joint ventures are set out in notes 12 and 13 to the financial statements, respectively.

The financial statements of the Company have been prepared on a going concern basis because 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.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with the accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. 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 significant intercompany transactions and balances with the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition of subsidiaries is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Interests in subsidiaries

Interests in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

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2. 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 each venturer has an interest 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.

Where the Group's interest in the joint venture is such that it establishes joint control over the economic activity of the joint venture with other venturers, the Group's interests in the joint ventures are carried at cost plus its share of post-acquisition undistributed reserves of the joint ventures in accordance with the defined cash/profit sharing ratios less any identified impairment loss.

Revenue recognition

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

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

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

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 their estimated residual value, using the straight line method, at the rate of 20% per annum.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

(For the year ended 31st December, 2004)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Foreign currencies**

Transactions in currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

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 net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases 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 negative 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 Company 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.

(For the year ended 31st December, 2004)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)***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. Impairment losses are 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, such 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.

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.

Government grants

Government grants are recognised as income over the year necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same year as those expenses are charged in the income statement and are deducted in reporting the related expense.

Retirement benefit costs

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

3. GROSS INCOME FROM TOLL ROAD OPERATIONS

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Toll receipts	12,845	19,194
Hangzhou City Government compensation (<i>Note 26</i>)	17,264	–
	30,109	19,194

(For the year ended 31st December, 2004)

4. 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.

5. PROFIT (LOSS) FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):		
Amortisation of goodwill (included in administrative expenses)	–	573
Amortisation of toll road operation rights (included in direct operating costs)	4,451	5,242
Auditors' remuneration	314	268
Depreciation of property, plant and equipment	184	225
Repairs and renovation costs	2,963	5,917
Staff costs:		
Directors' emoluments (<i>Note 6</i>)	263	275
Retirement benefits scheme contributions	345	206
Other staff costs	3,453	2,100
Total staff costs	4,061	2,581
Loss on disposal of property, plant and equipment	–	16
Operating lease rentals in respect of land and buildings	349	378
Compensation received from government for loss of property, plant and equipment	–	(644)
Interest income	(462)	(358)

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**(i) Directors' emoluments**

	2004 HK\$'000	2003 HK\$'000
Fees to directors:		
Executive directors	150	175
Independent non-executive directors	113	100
	263	275

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6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)**(ii) Employees' emoluments**

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

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	187	188
Performance related incentive payments	563	385
	750	573

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during the year.

7. INCOME TAX CHARGE (CREDIT)

	2004 HK\$'000	2003 HK\$'000
Current year:		
Income tax charge	2,420	584
Deferred tax credit (Note 20)	(613)	(2,923)
	1,807	(2,339)
Underprovision in prior years:		
Income tax charge	1,142	–
	2,949	(2,339)

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 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.

(For the year ended 31st December, 2004)

7. INCOME TAX CHARGE (CREDIT) (continued)

The charge (credit) for the year can be reconciled to the profit (loss) per the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit (loss) before tax	14,665	(30,147)
Tax at the income tax rate of 15% (2003: 15%)	2,200	(4,522)
Tax effect of expenses not deductible for tax purposes	(393)	2,183
Underprovision in respect of prior years	1,142	–
Tax charge (credit) for the year	2,949	(2,339)

8. DIVIDENDS

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

9. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	2004 HK\$'000	2003 HK\$'000
Earnings (loss) for the purpose of basic earnings (loss) per share	6,216	(22,441)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	360	N/A
Earnings for the purpose of diluted earnings per share	6,576	(22,441)

	'000	'000
Number of ordinary shares for the purpose of basic earnings (loss) per share	474,838	474,838
Effect of dilutive potential ordinary shares:		
Shares expected to be issued on the conversion of the convertible notes	180,000	N/A
Number of ordinary shares for the purpose of diluted earnings per share	654,838	474,838

For the year ended 31st December, 2003, the computation of diluted loss per share did not assume the conversion of the Company's outstanding convertible notes since their exercise would result in a decrease in loss per share from continuing ordinary operations.

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10. TOLL ROAD OPERATION RIGHTS

	THE GROUP
	<i>HK\$'000</i>
COST	
At 1st January, 2004 and at 31st December, 2004	116,392
AMORTISATION AND IMPAIRMENT	
At 1st January, 2004	26,232
Charge for the year	4,451
At 31st December, 2004	30,683
NET BOOK VALUES	
At 31st December, 2004	85,709
At 31st December, 2003	90,160

The toll road operation rights represent the concession rights over a toll road in Hangzhou ("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 a subsidiary, Hangzhou Huanan Engineering Development Co., Ltd. ("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.

For the purpose of enhancing capacity of its road networks and providing efficient services, automobiles registered in Hangzhou City are allowed to use Hangzhou Toll Road free of charge with effective from 1st January, 2004, pursuant to the Instruction No. 197 and No. (2003)31 issued by the Hangzhou City Government on 26th October, 2003, therefore, the toll revenue generated by Hangzhou Toll Road was substantially decreased. As at 31st December, 2003, the Group reassessed the recoverable amount of the toll road operation rights and the goodwill arising from the acquisition of HHED assuming no compensation would be received from Hanzhou City Government and based on the present value of the expected future value arising from Hangzhou Toll Road, which was calculated using a discount rate of 6%. Based on this re-assessment, the directors considered an impairment loss of HK\$19,490,000 and HK\$11,878,000 were required to be recognised for the toll road operation rights and goodwill, respectively.

In April 2004, HHED entered an agreement with the Hangzhou City Government that a daily compensation of RMB50,000 was granted to HHED for the loss of toll receipts. The compensation is subject to annual review by 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 26.

(For the year ended 31st December, 2004)

11. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP			
COST			
At 1st January, 2004	253	815	1,068
Additions	168	–	168
At 31st December, 2004	421	815	1,236
DEPRECIATION			
At 1st January, 2004	50	238	288
Provided for the year	54	130	184
At 31st December, 2004	104	368	472
NET BOOK VALUES			
At 31st December, 2004	317	447	764
At 31st December, 2003	203	577	780

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted shares at cost	30,235	30,235
Amounts due from subsidiaries	34,000	34,000
	64,235	64,235
<i>Less: Allowances for amounts due from subsidiaries</i>	(18,926)	(18,926)
	45,309	45,309

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repaid in the next twelve months.

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12. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries held by the Company at 31st December, 2004 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Issued and fully paid share/ registered capital	Equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Cableport Holdings Limited ("Cableport")	British Virgin Islands	US\$2	100%	–	Investment holding
Intrum Sino Limited ("Intrum")	British Virgin Islands	US\$2	100%	–	Investment holding
HHED*	PRC*	RMB170,000,000	–	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 advances and dividends. Of the RMB101.5 million, approximately RMB21.1 million was received by WNII in 1995, and in 1996 by way of dividends with the remaining amount of approximately RMB80.4 million received by way of advances made 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 have 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 way of advances). 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) will 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.

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.

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13. INTERESTS IN INFRASTRUCTURE JOINT VENTURES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets (<i>Note</i>)	–	–

Note: 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, 2004, 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	Equity interest attributable to the Group Indirectly	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%	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%	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.

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14. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY**THE GROUP**

The amount is unsecured, interest-free and has no fixed repayment terms.

15. BANK BALANCES AND CASH**THE GROUP**

At the balance sheet date, the bank balances and cash of approximately HK\$45,425,000 (2003: HK\$33,074,000) were denominated in Renminbi which is not freely convertible into other currencies.

16. AMOUNT DUE TO A DIRECTOR**THE GROUP AND THE COMPANY**

The amount is unsecured, interest free and has no fixed repayment terms.

17. CONVERTIBLE NOTES**THE GROUP AND THE COMPANY**

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 17th September, 2002 to the maturity date of 17th 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 17th 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.

18. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 31st December, 2003 and at 31st December, 2004	800,000	80,000
Issued and fully paid:		
At 31st December, 2003 and at 31st December, 2004	474,838	47,484

(For the year ended 31st December, 2004)

19. ACCUMULATED LOSSES

	Accumulated losses HK\$'000
THE COMPANY	
At 1st January, 2003	1,229
Net loss for the year	20,855
At 31st December, 2003	22,084
Net loss for the year	1,958
At 31st December, 2004	24,042

20. 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
THE GROUP			
At 1st January, 2003	–	–	–
Credit to income for the year	–	2,923	2,923
At 31st December, 2003	–	2,923	2,923
Credit (charge) to income for the year	752	(139)	613
At 31st December, 2004	752	2,784	3,536

There were no significant temporary differences for the year in the financial statements of the Company.

21. CONTINGENT LIABILITIES

The Group and the Company had no significant contingent liabilities as at 31st December, 2003 and 2004.

(For the year ended 31st December, 2004)

22. 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:

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	160	177

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.

At 31st December, 2003 and 31st December, 2004, the Company had no commitments under operating leases.

23. 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 10% 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 at 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.

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23. SHARE OPTION SCHEME *(continued)*

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-fundable 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.

24. 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.

The Group contributed an amount of approximately HK\$345,000 (2003: HK\$206,000) to the above scheme during the year.

25. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties as disclosed in notes 14, 16 and 17 respectively, during the year, the interest on convertible notes of approximately HK\$360,000 (2003: HK\$360,000) was accrued to Leading Highway, the ultimate holding company. 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 covenanted 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.

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26. GOVERNMENT GRANT

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 the 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 the Hangzhou City, a daily compensation of RMB50,000 was granted to HHED. The total amount received or receivable during the year ended 31st December, 2004 amounted to HK\$17,264,000 (2003: HK\$nil) have been included in the turnover for the year.

For the year ended 31st December, 2003, the Group received a government subsidy of HK\$2,696,000 towards the cost of repairs and renovation of the Hangzhou Toll Road. The amount has been deducted in reporting repairs and renovation costs for the year.

27. POTENTIAL IMPACT ARISING FROM THE RECENT ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.