Wah Nam

International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 0159

2005 Annual Report

Contents

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Cheng Yung Pun *(Chairman)*
Yu Sui Chuen
Cheng Wing See, Nathalie

Independent Non-executive Directors

Au-Yeung Tsan Pong, Davie
Fung Ka Choi
Wong Chu Fung

AUDIT COMMITTEE & REMUNERATION COMMITTEE

Au-Yeung Tsan Pong, Davie *(Chairman)*
Fung Ka Choi
Wong Chu Fung

QUALIFIED ACCOUNTANT

Wong Man Yee

COMPANY SECRETARY

Lai Mei Fong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Room 902, 9th Floor
East Ocean Centre
98 Granville Road
Tsimshatsui East
Kowloon, Hong Kong

SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

WEBSITE

www.wahnamintl.com

STOCK CODE

0159 (Main Board of The Stock Exchange of Hong Kong Limited)

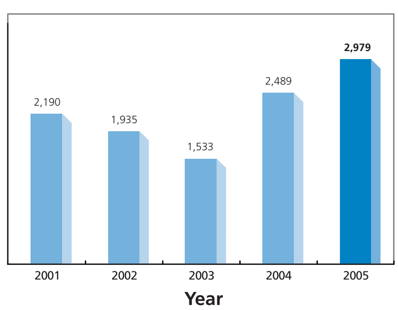
FINANCIAL HIGHLIGHTS

	For the year ended 31st December, **2005** *HK$'000*	2004 *HK$'000* (restated)	Changes %
Gross Toll Revenue	**29,423**	30,109	(2)
Profit before taxation	**14,253**	14,122	1
Profit Attributable to Equity Holders of the Company	**5,835**	5,673	3
Basic Earnings per Share (cents)	**1.14**	1.19	(4)
Diluted Earnings per Share (cents)	**1.02**	1.00	2

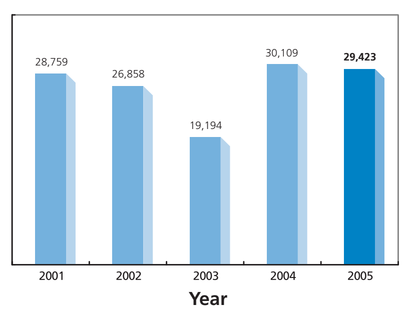
	% of Ownership	**Length in Kilometers**	**No. of Lanes**	**No. of Toll Stations**	**Remaining Year of Operation**
Hangzhou Toll Road	60%	11.934 km	Class 1 dual 2 lanes	1	18
Shanxi-Xiangyi Toll Road and Bridge	45%	44 km	Class 2 dual 1 lane	3	11
Shanxi-Linhong Toll Road and Bridge	45%	44 km	Class 2 dual 1 lane	2	11

Hangzhou Toll Road

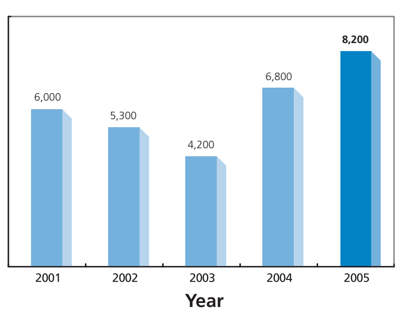
Yearly Traffic Volume
No. of Vehicles ('000)



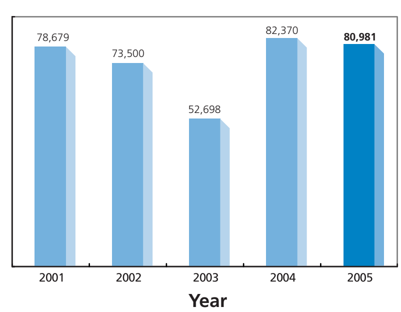
Yearly Toll Revenue
HK$'000



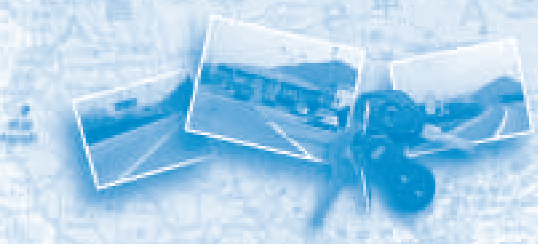
Average Daily Traffic Volume
No. of Vehicles



Average Daily Toll Revenue
HK$



Chairman's Statement



To our Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Wah Nam International Holdings Limited (the "Company") and its subsidiaries (the "Group"), I am delighted to present this annual report for the financial year ended 31st December, 2005.

RESULTS

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

BUSINESS REVIEW

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

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

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

Highlights of revenue comparison were:

Joint Venture in Hangzhou

Hangzhou Toll Road

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

Joint Ventures in Shanxi

Shanxi-Xiangyi Toll Road and Bridge

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

Shanxi-Linhong Toll Road and Bridge

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

Chairman's Statement

FINANCIAL REVIEW

Liquidity and Financial Resources

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

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

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

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

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

As at 31st December, 2005, the Group had no significant contingent liabilities and has minimal exposure to foreign exchange risk since the Group's revenue and expenditures were denominated in Hong Kong dollar and in Renminbi.

EMPLOYEES

As at 31st December, 2005, the Group has 50 employees (2004: 52). The pay levels of employees were commensurate with their responsibilities, performance and contribution to the Group and reflected the prevailing industry practice. To provide incentives and rewards to the employees, the Company adopted a share option scheme in August 2002.

PROSPECTS

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

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

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

APPRECIATION

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

Cheng Yung Pun
Chairman

Hong Kong, 30th March, 2006

Directors' Profile

EXECUTIVE DIRECTORS

Mr. Cheng Yung Pun

Aged 54, is the Chairman of the Company since the year 2002. Mr. Cheng is responsible for the overall management, strategic planning and business development of the Group. Mr. Cheng has more than 25 years' extensive experience in plastic toys manufacturing, property development and investment. He also has extensive management experience of the PRC operations. Mr. Cheng is the father of Ms. Cheng Wing See, Nathalie, executive director of the Company.

Mr. Yu Sui Chuen

Aged 50, is responsible for overseeing the finance and administration of the Group and assisting the Chairman in the strategic planning. Mr. Yu holds a Higher Diploma in Business Administration majoring in Accounting. Mr. Yu has over 25 years' experience in finance management and administration of which nearly 10 years he has been a member of the management committee of a listed company. He joined the Company in the year 2002.

Ms. Cheng Wing See, Nathalie

Aged 32, is responsible for the business development of the Group. Ms. Cheng has held managerial position in procurement in the plastic toys field for over eight years. Ms. Cheng is the daughter of Mr. Cheng Yung Pun, Chairman of the Company. She joined the Company in the year 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Au-Yeung Tsan Pong, Davie

Aged 60, was appointed to the board as an independent non-executive director and a chairman of the audit committee of the Company in the year of 2002 and a chairman of the remuneration committee of the Company in the year of 2005. Mr. Au-Yeung is a Fellow of the Hong Kong Institute of Directors. He holds a Diploma in Management Studies and has over 30 years' experience in business administration of which for over 15 years he has held a senior executive position in a renowned sporting and charitable institution in Hong Kong. He is an independent non-executive director of Yip's Chemical Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited. He is also the treasurer of a charitable, non-governmental organisation which raises funds and advocates for the well-being of children worldwide, and also a council member of a performing arts group.

Mr. Fung Ka Choi

Aged 56, was appointed to the board as an independent non-executive director and a member of the audit committee of the Company in the year of 2002 and a member of the remuneration committee of the Company in the year of 2005. Mr. Fung holds a Bachelor's degree in Social Sciences and a Bachelor's degree in Laws, and is an A.C.I.S. He is a practising solicitor in Hong Kong and has approximately 15 years' experience in the legal profession. He has also held executive positions in various charitable and social services organisations which provide social schemes and activities for the youth of Hong Kong.

Mr. Wong Chu Fung

Aged 46, was appointed to the board as an independent non-executive director and a member of the audit committee of the Company in the year of 2004 and a member of the remuneration committee of the Company in the year of 2005. Mr. Wong has over 20 years of experience in accounting and auditing in commercial and accounting firms. He is a member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He is currently the proprietor of Wong C. Fung & Co., Certified Public Accountants.

CODE ON CORPORATE GOVERNANCE

The Code on Corporate Governance Practices (the "Code") was introduced to Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") which was in force for accounting periods commencing on or after 1st January, 2005 with the exceptions in respect of the code provision C.2 on internal controls and the disclosure requirements in the Corporate Governance Report relating to the internal control which took effect for accounting periods commencing on or after 1st July, 2005. Appropriate actions were duly taken by the Directors including the amendments made to the Company's Bye-laws to the effect that every director should be subject to retirement by rotation at least once every three years, to put the Company in compliance of code provisions in the Code. The Board of the Company had adopted its own code on corporate governance practices which incorporates all the code provisions in this newly promulgated Code.

The Company had applied the principles of the said Code and its own code since their adoption, with an exception of code provisions A.2.1 and A.4.1 as stated herein, in order to protect and enhance the benefits of shareholders. Following sustained development and growth of the Company, the Board and its executive management will continue to monitor the governance policies to ensure that such policies meet the general rules and standards.

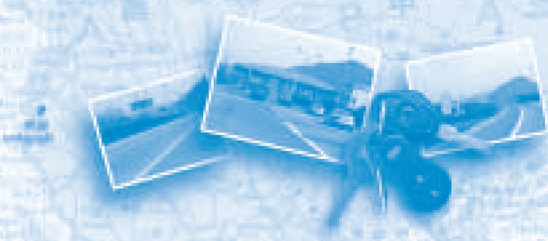
BOARD OF DIRECTORS

The Board serving the important function of guiding the management, currently comprises three executive Directors, namely Mr. Cheng Yung Pun (Chairman), Mr. Yu Sui Chuen and Ms. Cheng Wing See, Nathalie and three independent non-executive Directors ("INEDs") required under Rule 3.10(1) of the Listing Rules, namely Mr. Au-Yeung Tsan Pong, Davie, Mr. Fung Ka Choi and Mr. Wong Chu Fung, who represent half of the Board and include one with appropriate professional qualifications and accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules. Save as Ms. Cheng is the daughter of Mr. Cheng, there is no financial, business, family or other material/relevant relationship between the Directors. The Company considers that the Board has the necessary skills and experience appropriate for discharging its duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations.

Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. All Directors are updated from time to time with development in the laws and regulations applicable to the Company and each of the INEDs has made an annual confirmation that he complied with the independence criteria set out in Rule 3.13 of the Listing Rules. The Directors consider that all the three INEDs to be independent under these independence criteria and are capable to effectively exercise independent judgment.

The Directors as aforesaid, accompanied by their respective biographical details, are listed in the section "Directors' Profile" in this annual report and that the INEDs are expressly identified in all of the Company's publication such as circular, announcement or relevant corporate communications in which the names of Directors of the Company are disclosed.

The principal functions of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organisation of the Company for implementing the Board's decision. During the year under review, the Board has reviewed, inter alia, the performance of the Group and formulated business strategy of the Group; reviewed and approved the annual and interim results of the Group for the year ended 31st December, 2004 and for the six months ended 30th June, 2005 respectively; approved the change of principal place of address of the Company in Hong Kong; reviewed and confirmed the exercise of convertible notes; reviewed internal controls taken by the Group; and reviewed the amendments to the Bye-laws.



BOARD OF DIRECTORS *(continued)*

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Bye-laws of the Company allows board meetings to be conducted by way of telephone or videoconference. Any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has a conflict of interest except the written resolutions of the Company regarding the exercise of convertible notes by Leading Highway and issuance of conversion shares by the Company were passed. However, they were properly approved as the interested party has declared his interest and has been abstained from voting. The Board held a total of four board meetings during the year under review. The attendance record of each Director at the board meetings is disclosed below in this report.

In the board meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner before the appointed date of the board meetings and at least 3 days before the regular board meetings. Sufficient information was also supplied by the management to the Board to enable it to make decisions, which are made in the best interests of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In compliance with the code provision A.4.2 in the Code, the amendments to the Company's Bye-laws were passed in the 2005 annual general meeting of the Company held on 5th May, 2005. The Company's Bye-laws was amended to the effect that every Director should be subject to retirement by rotation at least once every three years. In accordance with the Bye-laws of the Company, at the first general meeting after the newly appointed Directors their appointment and that one-third of the Directors should be subject to retirement and re-election every year. Though none of the existing non-executive (including independent non-executive) Directors of the Company is appointed for a specific term, the Company still considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code as all Directors are subject to retirement provisions under the newly amended Company's Bye-laws.

In considering the nomination of a new director, the Board will take into account the qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics of the candidates. The Board considers that the existing human resource policy in recruitment of new senior staff is also applicable to nomination of a new director. Furthermore, as the Board is responsible for selection and approval of candidates for appointment as directors to the Board, the Company has not established a Nomination Committee for the time being.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

One of the executive Directors assumes the role of Chief Executive Officer. In the opinion of the Board, the present structure is more suitable to the Company because it can promote the efficient formulation and implementation of the Company's strategies though it is a deviation to the code provision A.2.1.

Chairman of the Board is appointed by the Board and his role is governed by the Chairman Mandate (containing the minimum prescribed duties) and stated in the Company's own code on corporate governance practices. His responsibility is for the leadership and effective running of the Board, ensuring that all keys and appropriate issues are discussed by the Board in a timely and constructive manner and ensure that directors receive adequate information, which must be complete and reliable, in a timely manner.

DIRECTORS' SECURITIES TRANSACTIONS

The Company had adopted a code of conduct for securities transactions by directors and relevant employees on terms no less exacting than the required standard contained in the Model Code for Securities Transactions by Directors set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all the Directors, the Company has obtained confirmation from all Directors that they have complied with the required standard set out in the Model Code and the code of conduct for securities transactions by directors and relevant employees adopted by the Company.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31st December, 2005 have been reviewed by the Audit Committee and audited by the external auditors, Messrs. Deloitte Touche Tohmatsu. The Directors acknowledge their responsibility for preparing the financial statements of the Group and presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group in a timely manner.

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee comprising three INEDs, namely Mr. Au-Yeung Tsan Pong, Davie, Mr. Fung Ka Choi and Mr. Wong Chu Fung, appointed by the Board and is chaired by Mr. Au-Yeung Tsan Pong, Davie, which meets at least once a year.

The principal duties of Remuneration Committee include formulation of the remuneration policy; review and recommending to the Board the annual remuneration; make recommendation to the Board of the remuneration of non-executive Directors; and determination of the remuneration of the executive Director and members of the Senior Management. The overriding objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

The specific terms of reference of the Remuneration Committee (containing the minimum prescribed duties) are adopted and which are available on request or on the website: www.wahnamintl.com.

The Remuneration Committee consults the Chairman about the proposal relating to the remuneration of other executive Directors and can access to professional advice where necessary. No Directors and chief executives can determine his own remuneration. During the year under review, the Remuneration Committee has held one meeting for review the remuneration package of the Directors. Minutes of Remuneration Committee Meeting are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the meeting are sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting. The attendance record of the committee members at the meeting of the Remuneration Committee, on a name basis, is disclosed below in this report.

AUDIT COMMITTEE

The Audit Committee, comprising three INEDs, namely Mr. Au-Yeung Tsan Pong, Davie, Mr. Fung Ka Choi and Mr. Wong Chu Fung, appointed by the Board who have extensive experience in legal and financial matters, meets at least two times a year and is chaired by Mr. Au-Yeung Tsan Pong, Davie. One member is the qualified accountant. None of the Audit Committee members are members of the former or existing auditors of the Company.

The principal responsibilities of the Audit Committee are, inter alia, to review the appointment of external auditors on an annual basis including a review of the audit scope and approval of the audit fees; to ensure continuing auditor objectivity and to safeguard independence of the Company's auditors; to meet the external auditors to discuss issues and reservations (if any) arising from the interim review and final audit, and any matters the auditors suggest to discuss; to review the Group's internal control system; to review the annual and interim report and quarterly result (if any) prior to the approval by the Board in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements; to serve as a focal point for communication between other Directors and the external auditors in respect of the duties relating to financial and other reporting, internal controls, external audit, and such other matters as the Board determines from time to time; to consider major findings of internal review and management's response and ensure proper arrangement in place for the fair and independent review of such concerns and appropriate follow up action; to devise a framework for the type and authorisation of non-audit services provided by the external auditors.

During the year under review, the Audit Committee had held two meetings for reviewing interim and annual reports respectively before submission to the Board in accordance with the accounting policies and practices, relevant accounting standards, the Listing Rules and the legal requirements; reviewing the external auditors' engagement letter; discussing issues during the audits of external auditors. The external auditors and the senior executives are invited to attend the meeting for annual financial statements. Minutes of Audit Committee Meeting are kept by a duly appointed secretary of the meetings. Draft and final versions of minutes of the meeting are sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meetings. The attendance record of the committee members meetings of the Audit Committee, on a name basis, is disclosed below in this report.

The Audit Committee discharged their duties in accordance with their terms of reference. These specific terms of reference are available on request or on the website: www.wahnamintl.com.

The table as below summarised the attendance record of each Director at the meetings of Board, Audit Committee and Remuneration Committee:

Attendance Record of individual Directors at meetings in 2005

	Board	Attendance Rate	Audit Committee	Attendance Rate	Remuneration Committee	Attendance Rate
Number of Meetings	4		2		1	
Executive Directors						
Cheng Yung Pun *(Chairman)*	4	100%	N/A	N/A	N/A	N/A
Yu Sui Chuen	4	100%	N/A	N/A	N/A	N/A
Cheng Wing See, Nathalie	4	100%	N/A	N/A	N/A	N/A
INEDs						
Au-Yeung Tsan Pong, Davie	4	100%	2	100%	1	100%
Fung Ka Choi	4	100%	2	100%	1	100%
Wong Chu Fung	4	100%	2	100%	1	100%

AUDITORS' REMUNERATION

During the year, the auditors of the Company, Messrs. Deloitte Touche Tohmatsu received approximately HK$351,000 for statutory audit services. No payments for non-audit services to the auditors were made during the year.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. The management throughout the Group maintains and monitors the internal control system on an on-going basis.

COMMUNICATION WITH SHAREHOLDERS

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. The Chairman of the Board as well as Chairman of the Audit and Remuneration Committees and members of the Committees are pleased to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors.

Details of poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report. The circular also includes relevant details of the proposed resolutions including biographies of each candidates standing for re-election. The results of the poll are published in the newspapers and on the website of the Stock Exchange, www.hkex.com.hk.

The Directors present their annual report and the audited financial statements for the year ended 31st December, 2005.

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 16 and 17 to the financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 18.

FINAL DIVIDEND

The Board does not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL

In September 2005, convertible notes of HK$12,000,000 were converted into 120,000,000 ordinary shares of HK$0.10 each in the Company.

Details of movements during the year in the share capital of the Company are set out in note 24 to the financial statements.

CONVERTIBLE NOTES

The convertible notes of HK$18,000,000 were matured in September 2005, HK$12,000,000 was converted into 120,000,000 ordinary shares of HK$0.10 each in the Company, the remaining HK$6,000,000 was settled through the current account with the ultimate holding company.

Details of the convertible notes of the Company are set out in note 23 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December, 2005 and 2004, the Company has no reserve available for distribution to the shareholders.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past period/years is set out on page 45.

DIRECTORS AND DIRECTORS' SERVICES CONTRACTS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors:

Cheng Yung Pun *(Chairman)*
Yu Sui Chuen
Cheng Wing See, Nathalie

Independent Non-executive Directors:

Au-Yeung Tsan Pong, Davie
Fung Ka Choi
Wong Chu Fung

In accordance with Clause 87(1) and 87(2) of the Company's Bye-laws, Mr. Cheng Yung Pun and Mr. Au-Yeung Tsan Pong, Davie shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each independent non-executive Director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2005, the interests and short positions of the directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of the Listing Companies were as follows:

Long positions of ordinary shares of HK$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cheng Yung Pun	Controlled corporation *(Note)*	445,500,000	74.89%

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.

Save as disclosed above, none of the Directors, chief executives, nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2005.

SHARE OPTION SCHEME

The share option scheme (the "Share Option Scheme") of the Company was adopted by the Company pursuant to the written resolution of the sole shareholder passed on 14th August, 2002. Particulars of the Share Option Scheme are set out in note 29 to the financial statements.

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures", at no time during the year 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 COMPETING BUSINESS

None of the Directors have any interests in competing business to the Group.

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of the related party transactions for the year are set out in note 31 to the financial statements. Other than as disclosed therein, 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 or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in respect of Mr. Cheng Yung Pun, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued share capital of the Company as at 31st December, 2005.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights 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 year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed shares of the Company.

MANAGEMENT CONTRACTS

During the year, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered or existed.

MAJOR CUSTOMERS AND SUPPLIERS

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

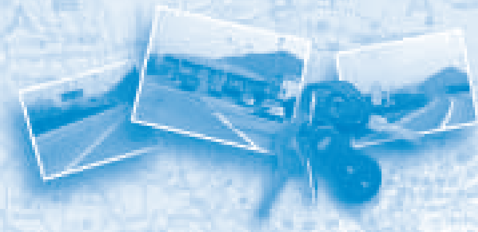
Aggregate operating and administrative expenses attributable to the Group's five largest suppliers were less than 30% of total operating and administrative expenses for the year.

At no time during the year did any director, any associate of a director, or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's share capital, have any beneficial interests in these customers of suppliers.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme are set out as "Share Option Scheme" above.



COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

As stated in the Company's interim report for the six months ended 30th June, 2005, the Board had adopted its own code on corporate governance practices which incorporates all code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code"). The Board had also reviewed and proposed the amendments to the Company's Bye-laws. At the annual general meeting of the Company held on 5th May, 2005, a special resolution was passed to amend the Company's Bye-laws so that every director, including those appointed for a specific term should be subject to retirement by rotation at least once every three years in compliance with the code provision A.4.2.

None of the Directors of the Company is aware of information that would reasonably indicate the Company is not or was not for any part of the year under review, in compliance with the Code except for the following deviations:

1. Code provision A.2.1, the role of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. One of the executive Directors assumes the role of CEO. The present structure is more suitable to the Company because it can promote the efficient formulation and implementation of the Company's strategy;

2. Code provision A.4.1 stipulates that non-executive director should be appointed for a specific term. However, none of the existing non-executive (including independent non-executive) Directors is appointed for a specific term since all the Directors of the Company (including executive and independent non-executive) are subject to retirement provisions under the Company's Bye-laws. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

AUDITORS

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, 30th March, 2006

Deloitte.
德勤

TO THE MEMBERS OF WAH NAM INTERNATIONAL HOLDINGS LIMITED

華南投資控股有限公司

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Wah Nam International Holdings Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") from pages 18 to 44 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2005 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 30th March, 2006

Consolidated Income Statement

For the year ended 31st December, 2005

	Notes	**2005** ***HK$'000***	2004 *HK$'000* (restated)
Gross toll revenue	*6*	**29,423**	30,109
Business tax		**(1,471)**	(1,506)
Net toll revenue		**27,952**	28,603
Direct costs		**(10,010)**	(10,540)
		17,942	18,063
Other income		**699**	842
Administrative expenses		**(3,633)**	(3,880)
Finance costs	8	**(755)**	(903)
Profit before taxation	9	**14,253**	14,122
Income tax expense	10	**(2,379)**	(2,949)
Profit for the year		**11,874**	11,173
Attributable to:			
Equity holders of the Company		**5,835**	5,673
Minority interests		**6,039**	5,500
		11,874	11,173
Earnings per share	13		
– Basic (cents)		**1.14**	1.19
– Diluted (cents)		**1.02**	1.00

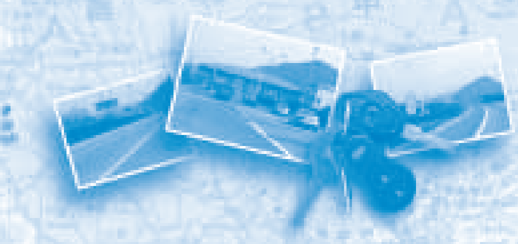
Consolidated Balance Sheet

At 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Non-current assets			
Toll road operation rights	14	**82,820**	85,709
Property, plant and equipment	15	**598**	764
Interests in infrastructure joint ventures	17	**–**	–
Amounts due from minority shareholders of a subsidiary	18	**12,180**	–
Deferred tax asset	25	**4,109**	3,536
		99,707	90,009
Current assets			
Other receivables, deposits and prepayments	19	**1,991**	2,119
Amounts due from minority shareholders of a subsidiary	18	**36,836**	4,211
Bank balances and cash	20	**17,865**	45,597
		56,692	51,927
Current liabilities			
Other payables and accrued charges	21	**1,708**	2,313
Amount due to a director	22	**–**	3,171
Tax liabilities		**1,092**	618
Convertible notes	23	**–**	17,613
		2,800	23,715
Net current assets		**53,892**	28,212
		153,599	118,221
Capital and reserves			
Share capital	24	**59,484**	47,484
Reserves		**(6,169)**	(15,514)
Equity attributable to equity holders of the Company		**53,315**	31,970
Minority interests		**89,299**	86,251
Total equity		**142,614**	118,221
Non-current liabilities			
Amount due to ultimate holding company	22	**6,695**	–
Amount due to a director	22	**4,290**	–
		10,985	–
		153,599	118,221

The financial statements on pages 18 to 44 were approved and authorised for issue by the Board of Directors on 30th March, 2006 and are signed on its behalf by:

Cheng Yung Pun	**Yu Sui Chuen**
Chairman	*Director*

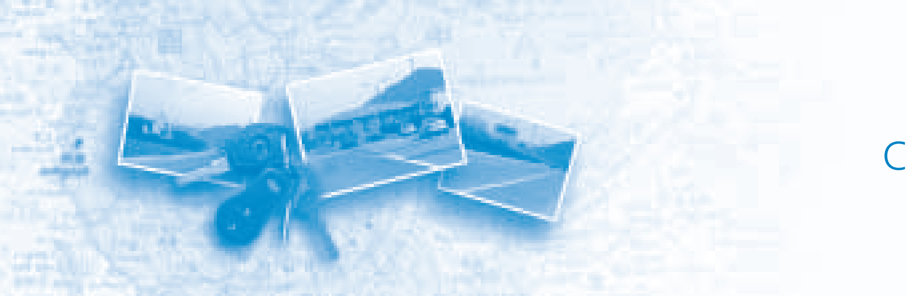


Consolidated Statement of Changes in Equity

For the year ended 31st December, 2005

	Attributable to equity holders of the Company									
	Share capital	Statutory surplus reserve	Convertible notes reserve	Shareholders' contribution reserve	Translation reserve	Accumulated losses	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004	47,484	966	–	–	–	(23,083)	25,367	80,751	106,118
Effect of change in accounting policies *(Note 2)*	–	–	1,585	–	–	(655)	930	–	930
As restated	47,484	966	1,585	–	–	(23,738)	26,297	80,751	107,048
Profit for the year, representing total recognised income for the year	–	–	–	–	–	5,673	5,673	5,500	11,173
Appropriations	–	487	–	–	–	(487)	–	–	–
At 31st December, 2004	47,484	1,453	1,585	–	–	(18,552)	31,970	86,251	118,221
Exchange differences arising on translation of foreign operation recognised directly in equity	–	–	–	–	2,766	–	2,766	–	2,766
Profit for the year	–	–	–	–	–	5,835	5,835	6,039	11,874
Total recognised income for the year	–	–	–	–	2,766	5,835	8,601	6,039	14,640
Appropriations	–	762	–	–	–	(762)	–	–	–
Issue of shares due to exercise of convertible notes	12,000	–	–	–	–	–	12,000	–	12,000
Transfer of convertible notes reserve on conversion of convertible notes	–	–	(1,057)	–	–	1,057	–	–	–
Reversal of convertible notes reserve on maturity	–	–	(528)	–	–	528	–	–	–
Deemed contribution from (distribution to) shareholders	–	–	–	744	–	–	744	(2,991)	(2,247)
At 31st December, 2005	**59,484**	**2,215**	**–**	**744**	**2,766**	**(11,894)**	**53,315**	**89,299**	**142,614**

The statutory surplus reserve represents enterprise development and general reserve funds appropriated from the profit after tax of a subsidiary established in the People's Republic of China (the "PRC") in accordance with the PRC laws and regulations.



Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005 *HK$'000*	2004 *HK$'000* (restated)
OPERATING ACTIVITIES		
Profit before taxation	**14,253**	14,122
Adjustments for:		
Amortisation of toll road operation rights	**4,485**	4,451
Depreciation of property, plant and equipment	**193**	184
Interest income	**(699)**	(462)
Interest expenses	**755**	903
Operating cash flows before movements in working capital	**18,987**	19,198
Increase in other receivables, deposits and prepayments	**(200)**	(1,508)
Increase (decrease) in other payables and accrued charges	**219**	(4,898)
Cash generated from operating activities	**19,006**	12,792
Income tax paid	**(2,415)**	(2,428)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**16,591**	10,364
INVESTING ACTIVITIES		
Interest received	**132**	462
Purchase of property, plant and equipment	**(14)**	(168)
Advance to minority shareholders of a subsidiary	**(46,681)**	–
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	**(46,563)**	294
CASH GENERATED FROM FINANCING ACTIVITIES		
Advance from a director	**1,366**	2,007
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(28,606)**	12,665
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**45,597**	32,932
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**874**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY		
Bank balances and cash	**17,865**	45,597

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.

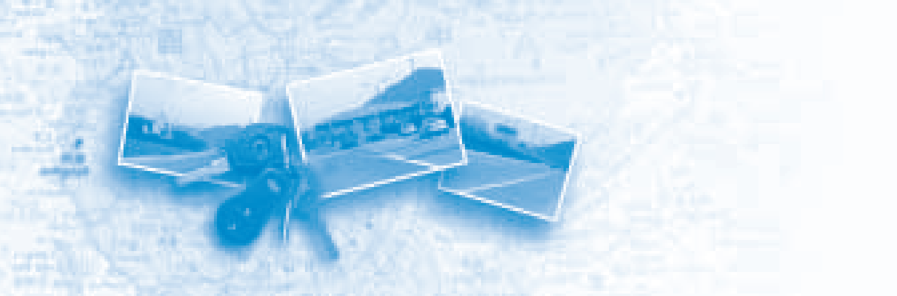
6. GROSS TOLL REVENUE

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 ***HK$'000***	2004 *HK$'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	2004
	HK$'000	*HK$'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	2004
	HK$'000	*HK$'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

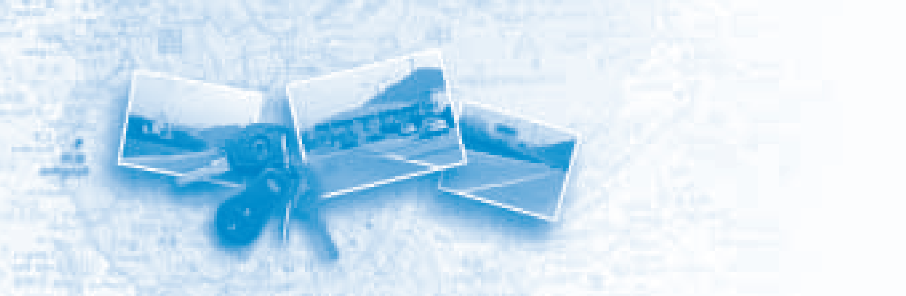
Income tax charge represents the PRC income tax paid or payable during the year. Income tax in the PRC has been provided at the prevailing rate of 18% (2004: 15%) on the estimated assessable profit applicable to the Company's subsidiary established in the PRC.

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

2004

	Executive directors			Independent non-executive directors			
	Cheng Yung Pun	Yu Sui Chuen	Cheng Wing See, Nathalie	Au-Yeung Tsan Pong, Davie	Fung Ka Choi	Wong Chu Fung	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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	2004
	HK$'000	*HK$'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.

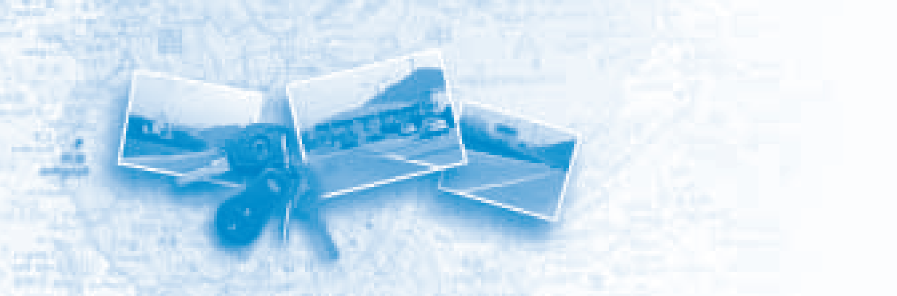
13. EARNINGS PER SHARE

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

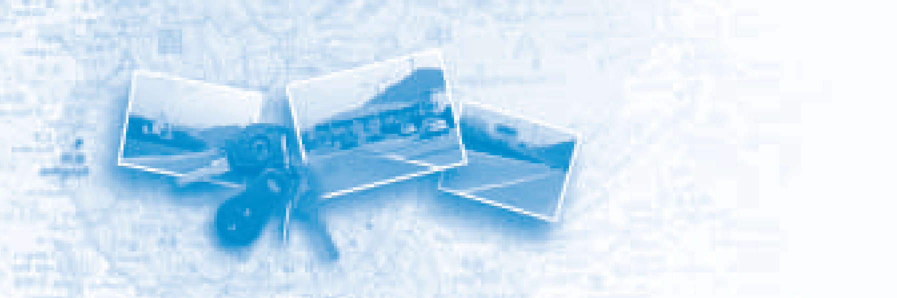
The toll road operation rights represent the concession rights over a toll road in Hangzhou (the "Hangzhou Toll Road") for 30 years, starting from 4th April, 1994 up to 3rd April, 2024, and carry the entitlement to the tolls from traffic running from Fuyang City to Hangzhou City, Zhejiang Province, the 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

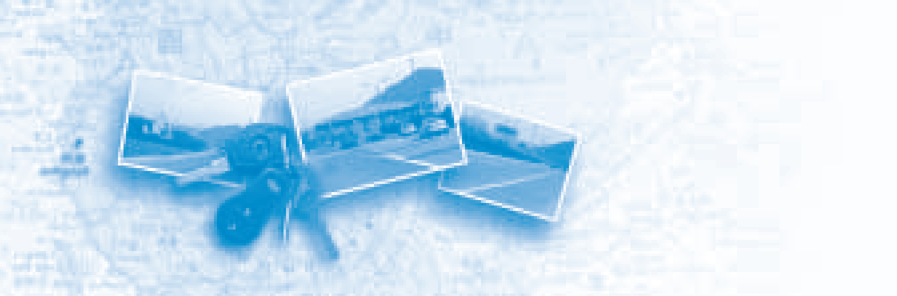
** *The infrastructure joint ventures are Sino-foreign co-operative joint ventures and are formed with an independent Hong Kong partner ("HK Partner") and an independent PRC partner ("PRC Partner") for a period of 20 years commencing from 13th November, 1997. The Group, HK Partner and PRC Partner each 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	2004
	HK$'000	*HK$'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	**Share capital**
	'000	*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.

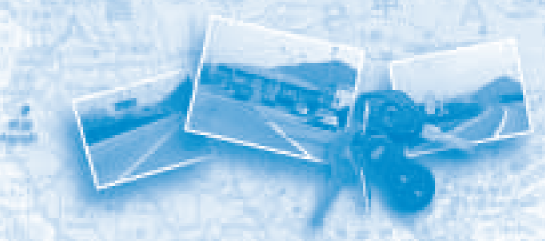
Financial Summary

	THE GROUP			
	For the year ended 31st December,			For the period from 1st February to 31st December,
	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)		
RESULTS				
Gross toll revenue	**29,423**	30,109	19,194	7,298
Profit (loss) before taxation	**14,253**	14,122	(30,147)	2,082
Income tax (expense) credit	**(2,379)**	(2,949)	2,339	(607)
Profit for the year	**11,874**	11,173	(27,808)	1,475
Attributable to:				
Equity holders of the Company	**5,835**	5,673	(22,441)	324
Minority interests	**6,039**	5,500	(5,367)	1,151
	11,874	11,173	(27,808)	1,475
Earnings (loss) per share				
– Basis (cents)	**1.14**	1.19	(4.73)	1.14
– Diluted (cents)	**1.02**	1.00	N/A	0.88

	As at 31st December,			
	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)		
ASSETS AND LIABILITIES				
Total assets	**156,399**	141,936	132,278	154,974
Total liabilities	**(13,785)**	(23,715)	(26,160)	(21,048)
Minority interests	**(89,299)**	(86,251)	(80,751)	(86,118)
	53,315	31,970	25,367	47,808

Note: The results and the financial position of the Group for the period from 1st February to 31st December, 2002 and the year ended 31st December, 2003 have not been adjusted for the effective of application of Hong Kong Financial Reporting Standards effective on 1st January, 2005, if any.

Notice of Annual General Meeting



NOTICE IS HEREBY GIVEN THAT the Annual General Meeting (the "AGM") of Wah Nam International Holdings Limited (the "Company") will be held at Garden Room A & B, 2/F., Hotel Nikko Hong Kong, 72 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on 4th May, 2006 at 2:30 p.m. for the following purposes:

1. To receive and consider the audited Financial Statements for the year ended 31st December, 2005 together with the Reports of the Directors and Auditors thereon.

2. To re-elect directors and authorise the Board of Directors to fix their remuneration.

3. To re-appoint auditors and authorise the Board of Directors to fix their remuneration.

4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

A. "**THAT**

(a) subject to paragraph (c) of this Resolution, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company; or (iii) the exercise of the share option scheme adopted and approved by the Company pursuant to the written resolutions of sole shareholder of the Company passed on 14th August, 2002; or (iv) an issue of shares in lieu of the whole or part of the dividend on shares of the Company in accordance with the Bye-laws of the Company, shall not exceed 20 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

"Rights Issue" means an offer of shares or offer or issue of warrants or options to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

B. "**THAT**

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase its own shares on the Stock Exchange or any other stock exchange on which the shares of the Company may be listed and is recognised by the Securities and Future Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Listing Rules as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of the shares of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly; and

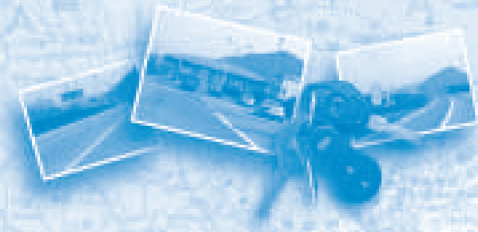
(c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."



C. "**THAT**

conditional upon the passing of the Resolutions set out in paragraph 4A and 4B of the notice convening this meeting, the general mandate granted to the Directors of the Company to allot, issue and deal with additional shares of the Company pursuant to the Resolution set out in paragraph 4A of the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with by the Directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the shares of the Company repurchased by the Company under the authority granted pursuant to the Resolution set out in paragraph 4B of the notice convening this meeting."

By Order of the Board
Lai Mei Fong
Company Secretary

Hong Kong, 7th April, 2006

Notes:

1. A member entitled to attend and vote at the above meeting (or at any adjournment thereof) is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any shares, any one of such persons may vote at the above meeting (or at any adjournment thereof), either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the above meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

3. In order to be valid, the forms of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority (such certification to be made by either a notary public or a solicitor qualified to practise in Hong Kong), must be deposited with the Branch Share Registrar of the Company in Hong Kong, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the above meeting or any adjournment thereof.

4. The register of members of the Company will be closed from 2nd May, 2006 (Tuesday) to 4th May, 2006 (Thursday), both days inclusive, during which period no transfer of shares can be registered. In order to qualify for attending and voting at the above AGM or any adjournment thereof, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's Branch Share Registrar in Hong Kong, Secretaries Limited at the above address for registration not later than 4:00 p.m. on 28th April, 2006.

5. An explanatory statement containing further details regarding the proposed Resolutions set out in the notice (except Resolutions 1 to 3) convening the above meeting will be sent to members of the Company together with the annual report 2005.

6. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

7. For the sake of good corporate governance practice, the Chairman intends to demand poll voting for all the resolutions set out in the notice of the AGM.