

The Board of Directors (the “Board”) of Yardway Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2002 together with comparative figures for the corresponding period in 2001.

Condensed consolidated income statement

For the six months ended 30 September 2002

	Notes	Six months ended	
		2002 (Consolidated) HK\$'000 (unaudited)	2001 (Combined) HK\$'000 (audited)
Turnover	2	81,778	87,008
Cost of sales/services		(61,262)	(59,631)
Gross profit		20,516	27,377
Other revenue	3	555	647
Other net income	3	701	11
Distribution costs		(7,178)	(5,712)
Administrative expenses		(11,136)	(10,107)
Profit from operations		3,458	12,216
Finance cost		(775)	(752)
Profit from ordinary activities before taxation	4	2,683	11,464
Taxation	5	(232)	(1,037)
Profit attributable to shareholders		2,451	10,427
Dividend	6	–	5,000
Earnings per share			
Basic	7	0.9 cent	5.3 cents
Diluted	7	0.9 cent	N/A

Condensed consolidated balance sheet*As at 30 September 2002*

	Notes	At 30 September 2002 HK\$'000 (unaudited)	At 31 March 2002 HK\$'000 (audited)
Non-current assets			
Fixed assets			
– Investment properties		3,700	3,700
– Other fixed assets		21,504	21,484
		25,204	25,184
Current assets			
Inventories		16,619	14,818
Accounts and bills receivable	8	76,246	70,999
Prepayment, deposits and other receivables		22,595	16,801
Pledged bank deposits		17,736	15,655
Cash at bank and in hand		22,362	62,827
		155,558	181,100
Current liabilities			
Bank overdraft – secured		3,001	9,929
Bank loans – secured		6,675	13,540
Bank loans – unsecured		10,089	5,647
Obligations under finance leases		299	200
Accounts and bills payable	9	52,709	65,782
Deposits, other payables and accrued charges		10,454	7,231
Provision for warranties		325	117
Taxation		533	1,261
Dividends payable		–	6,000
		84,085	109,707
Net current assets		71,473	71,393
Total assets less current liabilities		96,677	96,577
Non-current liabilities			
Bank loan – secured		5,740	5,770
Obligations under finance leases		495	16
		6,235	5,786
NET ASSETS		90,442	90,791
CAPITAL AND RESERVES			
Share capital	10	28,000	28,000
Reserves		62,442	62,791
		90,442	90,791

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2002

	Six months ended 30 September 2002 (unaudited)					Total HK\$'000
	Share capital	Share premium	Capital reserve	Contributed surplus	Retained profits	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2002	28,000	3,729	(4,665)	(180)	63,907	90,791
Profit for the period	-	-	-	-	2,451	2,451
Dividend	-	-	-	-	(2,800)	(2,800)
At 30 September 2002	28,000	3,729	(4,665)	(180)	63,558	90,442

	Six months ended 30 September 2001 (audited)					Total HK\$'000
	Share capital	Share premium	Capital reserve	Contributed surplus	Retained profits	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2001	20	-	(4,665)	-	53,244	48,599
Profit for the period	-	-	-	-	10,427	10,427
Dividend	-	-	-	-	(5,000)	(5,000)
At 30 September 2001	20	-	(4,665)	-	58,671	54,026

Condensed consolidated cash flow statement*For the six months ended 30 September 2002*

	Six months ended	
	30 September	
	2002	2001
	(Consolidated)	(Combined)
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Net cash (outflow)/inflow from operating activities	(19,355)	10,117
Net cash used in investing activities	(2,732)	(3,125)
Net cash used in financing activities	(11,450)	(714)
(Decrease)/increase in cash and cash equivalents	(33,537)	6,278
Cash and cash equivalents at beginning of period	52,898	(1,344)
Cash and cash equivalents at end of period	19,361	4,934
Analysis of cash and cash equivalents		
Cash at bank and in hand	22,362	17,133
Bank overdrafts	(3,001)	(12,199)
	19,361	4,934

Notes to the condensed interim financial statements

(Expressed in Hong Kong dollars)

1. Basis of Presentation and Accounting Policies

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 31 August 2001 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme to rationalise the structure of the Group on 13 March 2002 (the “Reorganisation”) in preparation of the public listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the companies now comprising the Group. Further details of the Reorganisation are set out in the prospectus of the Company dated 19 March 2002 (the “Prospectus”).

The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting. The consolidated financial statements include the results of the Company and its subsidiaries as if the group structure resulting from the Reorganisation had been in existence throughout the period from 1 April 2001 to 30 September 2001 or since the dates of the incorporation of the respective group companies where this is a shorter period.

The comparative results for the six months ended 30 September 2001 have been prepared on combined basis as if the group structure resulting from the aforementioned group reorganisation executed on 13 March 2002 had been in existence since 1 April 2001.

The unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“HKSSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants. The accounting policies used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31

March 2002 except that the Group has adopted the following new or revised HKSSAPs which are effective for accounting periods commencing on or after 1 January 2002.

HKSSAP1 (revised):	Presentation of Financial Statements
HKSSAP15 (revised):	Cash Flow Statements
HKSSAP 34:	Employee Benefits

The adoption of the above HKSSAPs has no material effect on prior year financial statements.

These interim financial statements should be read in conjunction with the 2002 annual financial statements.

2. Segment Reporting

Business segments

The Group comprises the following main business segments:

Sales and distribution activities

- The trading of airport ground support equipment, railway maintenance equipment, coaches and trucks and yachts.

Provision of engineering services and sales of spare parts

- The provision of engineering services and sales of spare parts.

	Six months ended 30 September					
	Provision of engineering services and					
	Sales and distribution			sales of spare parts		
	2002 (Consolidated) HK\$'000 (unaudited)	2001 (Combined) HK\$'000 (audited)	2002 (Consolidated) HK\$'000 (unaudited)	2001 (Combined) HK\$'000 (audited)	2002 (Consolidated) HK\$'000 (unaudited)	2001 (Combined) HK\$'000 (audited)
Revenue from customers	58,494	68,586	23,284	18,422	81,778	87,008
Unallocated other revenue	-	-	-	-	555	647
Total	58,494	68,586	23,284	18,422	82,333	87,655
Segment results						
Contribution from operations	2,812	10,875	1,211	2,927	4,023	13,802
Unallocated operating income and expenses	-	-	-	-	(565)	(1,586)
Profit from operations					3,458	12,216
Finance cost					(775)	(752)
Taxation					(232)	(1,037)
Profit attributable to shareholders					2,451	10,427
Depreciation for the period	215	199	228	67		
Segment assets	91,993	85,424	35,013	23,988	127,006	109,412
Unallocated assets					53,756	34,157
Total assets					180,762	143,569
Segment liabilities	66,043	60,403	13,091	8,274	79,134	68,677
Unallocated liabilities					11,186	20,866
Total liabilities					90,320	89,543
Capital expenditure incurred during the period	337	268	107	94		

Geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments. Hong Kong and the PRC are the major markets for the Group's businesses.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Six months ended 30 September							
	Hong Kong		The PRC		The United States of America		Others	
	2002	2001	2002	2001	2002	2001	2002	2001
	(Consolidated)	(Combined)	(Consolidated)	(Combined)	(Consolidated)	(Combined)	(Consolidated)	(Combined)
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)	
Revenue from customers	36,703	28,110	40,925	46,577	3,749	12,968	956	-
Profit from operations	668	2,588	3,185	9,527	(272)	101	(123)	-
Segment assets	127,006	109,412	-	-	-	-	-	-
Capital expenditure incurred during the period	444	362	-	-	-	-	-	-

3. Other revenue and other net income

	Six months ended	
	30 September	
	2002	2001
	(Consolidated)	(Combined)
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Other revenue:		
Gross rental income from investment properties	66	155
Interest income	273	318
Others	216	174
	555	647
Other net income:		
Exchange gain, net	720	–
(Loss)/gain on sales of fixed assets	(19)	11
	701	11

4. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended	
	30 September	
	2002	2001
	(Consolidated)	(Combined)
	HK\$'000	HK\$'000
	(unaudited)	(audited)
(a) Finance cost:		
Interest on bank borrowings within five years	638	506
Interest on bank borrowings after five years	128	231
Finance charges on obligations under finance leases	9	15
	<hr/>	<hr/>
	775	752
	<hr/>	<hr/>
(b) Other items:		
Cost of inventories	54,132	53,477
Staff costs		
- salaries and staff benefits	11,360	11,234
- retirement costs	378	394
Depreciation		
- assets held for use under finance leases	55	101
- owned fixed asset	830	716
Operating lease charges in respect of properties	1,005	1,031
Rentals receivable from investment properties		
less outgoings of HK\$2,000 (six months ended 30 September 2002: HK\$31,000)	(64)	(124)
	<hr/>	<hr/>

5. Taxation

	Six months ended	
	30 September	
	2002	2001
	(Consolidated)	(Combined)
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Provision for Hong Kong Profits Tax	200	1,000
Overseas taxation	32	37
	232	1,037

Hong Kong Profits Tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit during the period. Overseas taxation is charged at the appropriate current rates of taxation ruling in the relevant countries.

No provision for deferred taxation has been made as the effect of all timing difference is immaterial.

6. Dividend

The directors do not recommend any interim dividend for the six months ended 30 September 2002 (six months ended 30 September 2001: HK\$5,000,000).

7. Earnings per share

The calculation of basic earnings per share is based on the profit from ordinary activities attributable to shareholders for the period of HK\$2,451,000 (six months ended 30 September 2001: HK\$10,427,000) and on the weighted average of 280,000,000 shares (six months ended 30 September 2001: 196,000,000) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 September 2002 is based on the profit from ordinary activities attributable to shareholders for the period of HK\$2,451,000 and on the weighted average of 280,000,000 shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 272,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the period.

No dilutive earnings per share was presented for the six months ended 30 September 2001 as there was no potential dilutive ordinary shares in existence for that period.

8. Accounts and Bills Receivable

Debts are due within 30 to 90 days from the date of billing. The ageing analysis of accounts receivable is as follows:

	30 September 2002 (Consolidated) HK\$'000 (unaudited)	31 March 2002 (Consolidated) HK\$'000 (audited)
Accounts receivable		
– within 30 days	20,473	49,884
– between 31 to 90 days	26,873	7,908
– between 91 days to 365 days	26,004	10,276
– over 365 days	729	822
	74,079	68,890
Bills receivable	2,167	2,109
	76,246	70,999

9. Accounts and bills payable

Ageing analysis of accounts payable is as follows:

	30 September 2002 (Consolidated) HK\$'000 (unaudited)	31 March 2002 (Consolidated) HK\$'000 (audited)
Accounts payable		
– due within 1 month or on demand	16,283	41,567
– due after 1 month but within 3 months	8,618	6,565
– due after 3 months but within 6 months	11,694	1,035
– due after 6 months but within 1 year	261	2,252
	36,856	51,419
Bills payable	15,853	14,363
	52,709	65,782

10. Share Capital

	30 September 2002		31 March 2002	
	Number of shares (‘000) (unaudited)	Amount HK\$'000 (unaudited)	Number of shares (‘000) (audited)	Amount HK\$'000 (audited)
<i>Authorised:</i>				
Ordinary shares of HK\$0.1 each	2,000,000	200,000	2,000,000	200,000
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.1 each	280,000	28,000	280,000	28,000

11. Commitments

(a) Capital commitments

The Group had the following capital commitments:

	30 September 2002 (Consolidated) HK\$'000 (unaudited)	31 March 2002 (Consolidated) HK\$'000 (audited)
Capital commitments, contracted but not provided for in respect of		
– purchase of land and building:	10,000	–
– capital injection to a wholly-owned subsidiary in the PRC:	10,000	–
	20,000	–

(b) Operating lease commitments

At 30 September 2002, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	30 September 2002 (Consolidated) HK\$'000 (unaudited)	31 March 2002 (Consolidated) HK\$'000 (audited)
Within 1 year	1,248	703
After 1 year but within 5 years	887	96
	2,135	799

12. Off-balance sheet financial instruments

The Group has employed off-balance sheet derivative instruments such as foreign exchange forwards to manage its foreign exchange exposure.

The contracted notional amounts of derivative instruments outstanding 30 September 2002 are as follows:

	30 September 2002 (Consolidated) HK\$'000 (unaudited)	31 March 2002 (Consolidated) HK\$'000 (audited)
Foreign exchange forwards maturing in less than 1 year		
– sales	52,780	9,472
– purchases	–	2,018

13. Contingent Liabilities

At 30 September 2002, the Group has given guarantees in favour of third parties (representing customers and potential customers) for performing duties and quality assurance amounting to approximately HK\$4,228,000 (31 March 2002: HK\$2,196,000) and HK\$27,909,000 (31 March 2002: HK\$14,292,000) respectively.

14. Post Balance Sheet Event

On 6 November 2002, the Company's wholly-owned subsidiary in the PRC entered into an agreement to purchase a piece of land in the PRC, Zhuhai from an independent party for its operational use at a consideration of approximately RMB1,072,000.

15. Comparative Figures

Certain comparative figures have been reclassified to conform to current period's presentation. Income tax included in the administrative expenses and the item of other operating expenses in the last corresponding period had been reclassified to taxation and added to administrative expenses respectively.

Management discussion and analysis

Results

For the six months ended 30 September 2002, the Group's turnover was HK\$81,778,000 representing a moderate decrease of 6% over the corresponding period of last year. The Group's profit attributable to shareholders for the period was HK\$2,451,000 representing a decrease of 76.5% as compared to the last corresponding period. The decrease in turnover and profit were primarily attributable to the weakening in the Hong Kong economy and revenue contribution from certain large projects cannot be recognised as they were still in progress during the period under review.

Business Review

During the period under review, the turnover of the Group's business in railway maintenance equipment and airport ground support equipment amounted to HK\$39,493,000, a decrease of 15% when compared with the same period of last year. This was mainly due to the situation that revenue generated from the major projects for railway maintenance equipment was not recognised in the first half of the year. However, the Group has successfully obtained several projects in the first half of the year. It is expected that these projects will be completed in the second half of the year.

For the first half of the financial year, the slowdown of the Hong Kong economy had affected the business areas in which the Group operates. The profit margins for the sales of trucks and repair services were decreased as more discounts were offered to customers in order to stimulate sales. As a result, the sales of trucks and repair services were increased by 25% over the corresponding period of last year.

The limited production facilities of the subcontractors had led to the slow production process. As a result, the sales of yachts and related equipment amounted to approximately HK\$7,776,000 down about 40% when compared with the last corresponding period.

On the other hand, in order to explore the potential business in logistics equipment and assembling and integrating railway maintenance equipment and related systems, the Group has established a wholly-owned company in Zhuhai in August 2002.

Prospects

The continuous economic progress in the PRC market will further stimulate the growth of the Group's sales in the PRC. During the period under review, the Group has concluded some sizeable projects with contract sum over HK\$50 million. Revenue from these projects is expected to be recognised in the second half of the year. The Group will continue to focus on its core business and explore the new business opportunities in the future.

Employees and Remuneration Policy

As at 30 September 2002, the Group has employed 134 staff. The Group's remuneration packages include basic salary, double pay, commission, share option scheme, insurance and medical benefits. Staff remuneration packages are normally reviewed annually. As at the date hereof, a total of 10,000,000 share options are granted to selected eligible executives. The share options are exercisable from 16 September 2002 to 15 September 2005. There are no share options exercised at the date of this report.

Liquidity and financial resources**Liquidity**

The Group finances its operations from internally generated funds, banking facilities and proceeds from the initial public offer. As at 30 September 2002, the Group had total assets of approximately HK\$180,762,000 which were financed by shareholders' equity of approximately HK\$90,442,000 and liabilities of approximately HK\$90,320,000.

The Group had cash and bank balances including pledged fixed deposits totalling HK\$40,098,000 as at 30 September 2002 (31 March 2002: HK\$78,482,000). The total bank borrowings outstanding was approximately of HK\$25,505,000 (31 March 2002: HK\$34,886,000). The Group's cash, bank balances and bank borrowings were mainly denominated in Hong Kong dollars, US dollars and Euro. The annual interest rates of such borrowings for the period under review ranged from prime rate to prime rate plus 0.5%. The current ratio of the Group was 1.9 (31 March 2002:1.7). The gearing ratio (total borrowings over total assets) was 15% (31 March 2002:17%).

Exchange exposure and hedging

The business operations of the Group are mainly transacted in US dollars, Euro, Renminbi, Japanese Yen and Hong Kong dollars. The Group is subject to foreign currency exposure in the rates of exchange between the currencies in which its income is denominated and those in which the Group incurs costs.

The Group closely monitors its foreign exposure and hedges such exposure arising from major contracts entered into by the Group denominated in foreign currencies (other than those denominated in US dollars, the exchange rate which has pegged with Hong Kong dollars) through the use of short term foreign contracts from time to time.

Pledges of assets

As at 30 September 2002, the Group's leasehold property with an aggregate net book value amounting to HK\$8,811,000 (31 March 2002: HK\$8,900,000) and bank fixed deposits of HK\$17,736,000 (31 March 2002: HK\$15,655,000) were pledged to banks to secure banking facilities granted to the Group.

Use of proceeds

The net proceeds from initial public offering of the Company amounted to approximately HK\$32 million. As at 30 September 2002, the Group has utilised the proceeds as follows:

	Originally planned	Amount utilized
	HK\$'000	HK\$'000
Expansion of the sales and marketing team	4,000	1,009
Expansion of the Group's after sale services, including acquiring and upgrading in-house facilities and the recruitment of additional engineers	5,000	666
Setting up of additional representative offices in the PRC	5,000	–
Setting up of a joint venture in the PRC to engage in manufacturing, assembling and integrating railway maintenance equipment and related systems	8,000	–
Promotion of the Group's corporate profile by participating in relevant exhibitions and organising seminars introducing new equipment to potential customers	2,000	1,008
General working capital	8,000	8,000
	<hr/> 32,000	<hr/> 10,683

Purchase, redemption or sale of the company's listed shares

The Company's shares were listed on the Main Board of the Stock Exchange on 28 March 2002. Neither the company nor any of its subsidiaries purchase, redeemed or sold any of the Company's listed securities during the period under review.

Directors' interests in shares

(i) Interests in shares of the Company

At 30 September 2002, according to the register kept under section 29 of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”), the interests of the Company’s directors and their associates in the share capital of the Company, its subsidiaries and other associated corporations (as defined in the SDI Ordinance) were as follows:

Name of director	Ordinary shares of HK\$0.1 each				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Fong Kit Wah, Alan	–	–	131,000,000	–	131,000,000

(Note)

Note: These shares are registered in the name of and beneficially owned by Speedway Investment Holding Limited (“Speedway”), a company incorporated in the British Virgin Islands (“BVI”), and whose entire issued share capital is wholly-owned by Fong Kit Wah, Alan.

(ii) Interests in a subsidiary of the Company

Fong Kit Wah, Alan also has beneficial interests in his personal capacity in 5,000 non-voting deferred shares of HK\$1 each in Yardway Limited and 75% of the issued share capital in Yardway Holdings Limited which in turn is interested in 100 non-voting deferred shares of HK\$1 each in Yardway Limited.

Save as disclosed above, as at 30 September 2002, none of the directors or chief executive or their associates had any personal, family, corporate or other interests in the shares of the Company, its subsidiaries or other associated corporations as defined in the SDI Ordinance.

Directors' rights to acquire shares or debentures

Save as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, at no time during the period under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under the age of 18, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share option scheme

On 9 September 2002, share options were granted under the share option scheme to subscribe for 10,000,000 ordinary shares of the Company for a nominal consideration of HK\$1 in total per grantee. The share options granted entitled the holders to exercise at any time between 16 September 2002 to 15 September 2005 both days inclusive at an exercise price of HK\$0.365 per share option. The closing price of shares immediately before the date of grant of share options was HK\$0.41. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

Details of the share options granted under the share option scheme are as follows:

Name or category of Participant	Date of grant of share option	Exercise price HK\$	Exercise period	Number of share options			
				At 1 April 2002	Granted during the period	Exercised during the period	At 30 September 2002
Executive directors							
Mr. Fong Kit Wah, Alan	9 September 2002	0.365	16 September 2002 to 15 September 2005	-	3,000,000	-	3,000,000
Mr. Rourke James Grierson	9 September 2002	0.365	16 September 2002 to 15 September 2005	-	1,000,000	-	1,000,000
Mr. Fong Pok Chung, Michael	9 September 2002	0.365	16 September 2002 to 15 September 2005	-	1,000,000	-	1,000,000
Ms. Cheung Miu Sin	9 September 2002	0.365	16 September 2002 to 15 September 2005	-	1,000,000	-	1,000,000
Independent non-executive directors							
Mr. Law Yui Lun	9 September 2002	0.365	16 September 2002 to 15 September 2005	-	1,000,000	-	1,000,000
Mr. Wong Man Chung, Francis	9 September 2002	0.365	16 September 2002 to 15 September 2005	-	1,000,000	-	1,000,000
Non-executive director							
Mr. Yin Jie	9 September 2002	0.365	16 September 2002 to 15 September 2005	-	1,000,000	-	1,000,000
Senior executive							
	9 September 2002	0.365	16 September 2002 to 15 September 2005	-	1,000,000	-	1,000,000
				-	10,000,000	-	10,000,000

The financial impact of share options granted is not recorded in the balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise dates are deleted from the register of outstanding share options.

The directors consider it inappropriate to disclose the value of share options granted during the period under review because there was no readily market value of the share options on the ordinary shares of the Company and any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions. The directors were unable to arrive at an assessment of the value of these share options.

Substantial shareholders

As at 30 September 2002, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance showed that the Company has been notified the following shareholders had direct or indirect interests of 10% or more in the Company's issued shares:

	Ordinary shares held	Percentage of total issued shares
Speedway	131,000,000	46.79% <i>(Note (1))</i>
Goodwell Group Invest Limited ("Goodwell")	56,000,000	20% <i>(Note (2))</i>

Notes:

- (1) These shares are registered in the name of and beneficially owned by Speedway, a company incorporated in the BVI, and whose entire issued share capital is wholly-owned by Fong Kit Wah, Alan.
- (2) These shares are registered in the name of and beneficially owned by Goodwell, a company incorporated in the BVI, and whose entire issued share capital is wholly-owned by China National Aviation Corporation (Group) Limited (“CNAC”), a company incorporated in Hong Kong. CNAC is in turn wholly-owned by China National Aviation Corporation, a state-owned enterprise established in the PRC.

Audit committee

The Company established an audit committee on 13 March 2002 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The audit committee comprises two independent non-executive directors. They will be responsible for dealing with audit related matters which include reviewing and supervising the financial reporting process and internal control to protect the interests of the shareholders.

Compliance with code of best practice

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) since the date of listing of the Company’s shares, except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company’s annual general meeting in accordance with the Company’s articles of association.

By order of the Board
Fong Kit Wah, Alan
Chairman

Hong Kong, 16 December 2002