

Interim Report 2003

The Board of Directors (the "Board") of Yardway Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2003 together with comparative figures for the corresponding period in 2002.

Condensed Consolidated Income Statement

For the six months ended 30 September 2003

		Six months ended 30 September	
	Notes	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Turnover	2	90,818	81,778
Cost of sales/services		(73,726)	(61,262)
Gross profit		17,092	20,516
Other revenue	3	716	555
Other net income	3	1,261	701
Distribution costs		(7,660)	(7,178)
Administrative expenses		(8,886)	(11,136)
Profit from operations		2,523	3,458
Finance costs		(718)	(775)
Profit from ordinary activities before taxation	4	1,805	2,683
Taxation	5	(190)	(232)
Profit from ordinary activities after taxation		1,615	2,451
Minority interests		156	–
Profit attributable to shareholders		1,771	2,451
Dividends	6	–	–
Earnings			
Basic	7	0.6 cent	0.9 cent
Diluted	7	N/A	0.9 cent

Condensed Consolidated Balance Sheet

As at 30 September 2003

	Notes	At 30 September 2003 HK\$'000 (unaudited)	At 31 March 2003 HK\$'000 (audited)
Non-current assets			
Fixed assets			
– Investment properties		3,700	3,700
– Other fixed assets		15,483	31,175
		35,383	34,875
Construction in progress		2,366	2,366
Interest in associate		1,667	4,073
		41,822	41,314
Current assets			
Inventories		14,578	14,578
Accounts and bills receivable	8	89,306	103,484
Prepayments, deposits and other receivables		14,253	15,895
Amount due from a related company		665	665
Tax recoverable		1,368	1,368
Pledged bank deposits		11,268	12,777
Cash at bank and in hand		14,056	21,937
		138,551	170,704

Condensed Consolidated Balance Sheet (Continued)

As at 30 September 2003

	Notes	At 30 September 2003 HK\$'000 (unaudited)	At 31 March 2003 HK\$'000 (audited)
Current liabilities			
Bank loans and overdraft		21,652	32,001
Obligations under finance leases		265	268
Accounts and bills payable	9	32,624	58,514
Deposits, other payables and accrued charges		20,522	15,111
Provision for warranties		429	151
Taxation		160	–
		75,652	106,045
Net current assets		62,899	64,659
Total assets less current liabilities		104,721	105,973
Non-current liabilities			
Bank loans		9,033	9,532
Obligations under finance leases		236	368
Minority interest		344	–
		9,613	9,900
NET ASSETS		95,108	96,073
CAPITAL AND RESERVES			
Share capital	10	28,000	28,000
Reserves		67,108	68,073
		95,108	96,073

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2003

	Six months ended 30 September 2003 (unaudited)						
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2003	28,000	3,728	(4,665)	(180)	–	69,190	96,073
Translation adjustment	–	–	–	–	64	–	64
Profit for the period	–	–	–	–	–	1,771	1,771
Dividends	–	–	–	–	–	(2,800)	(2,800)
At 30 September 2003	28,000	3,728	(4,665)	(180)	64	68,161	95,108

	Six months ended 30 September 2002 (unaudited)						
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2002	28,000	3,728	(4,665)	(180)	–	63,908	90,791
Profit for the period	–	–	–	–	–	2,451	2,451
Dividends	–	–	–	–	–	(2,800)	(2,800)
At 30 September 2002	28,000	3,728	(4,665)	(180)	–	63,559	90,442

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2003

	Six months ended 30 September	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Net cash generated from/(used in) operations	36,047	(19,355)
Net cash generated from/(used in) investing activities	81	(2,732)
Net cash used in financing activities	(11,633)	(11,450)
Increase/(decrease) in cash and cash equivalents	24,495	(33,537)
Cash and cash equivalents at beginning of period	18,559	52,898
Effect on foreign exchange rate changes	(8)	–
Cash and cash equivalents at end of period	43,046	19,361
Analysis of cash and cash equivalents		
Cash at bank and in hand	44,056	22,362
Bank overdrafts	(1,010)	(3,001)
	43,046	19,361

Notes to the Condensed 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. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 28 March 2002.

The unaudited condensed consolidated financial statements are prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Statement of Standard Accounting Practice (“HKSSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants (“HKSA”). 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 2003 except that the Group has adopted the HKSSAP 12 (revised), Income Taxes, issued by the HKSA, which is effective for accounting periods commencing on or after 1 January 2003.

In prior years, deferred taxation was provided for at the current taxation rate in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. Under HKSAAP 12 (revised), deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts, based on the tax rates enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The adoption of the HKSSAP 12 (revised) has no material effect on the Group’s results and financial positions for the current and prior year financial statements.

These interim financial statements should be read in conjunction with the 2003 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							
	Sales and distribution		Provision of engineering services and sales of spare parts		Unallocated		Total	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Revenue from customers	57,203	58,494	33,615	23,284	–	–	90,818	81,778
Unallocated other revenue	–	–	–	–	716	555	716	555
Total	57,203	58,494	33,615	23,284	716	555	91,534	82,333
Segment results								
Contribution from operations	(2,176)	2,812	4,325	1,211			2,149	4,023
Unallocated operating income and expenses	–	–	–	–			374	(565)
Profit from operations							2,523	3,458
Finance costs							(718)	(775)
Taxation							(190)	(232)
Minority interests							156	–
Profit attributable to shareholders							1,771	2,451
Depreciation for the period	289	215	254	228	558	442		

2. Segment reporting (Continued)

	Six months ended 30 September							
	Sales and distribution		Provision of engineering services and sales of spare parts		Unallocated		Total	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Segment assets	88,936	91,993	46,361	35,013			135,297	127,006
Unallocated assets							45,076	53,756
Total assets							180,373	180,762
Segment liabilities	63,172	66,043	8,900	13,091			72,072	79,134
Unallocated liabilities							13,193	11,186
Total liabilities							85,265	90,320
Capital expenditure incurred during the period	1,002	337	2	107	544	884		

Geographical segments

The Group's business is managed on a worldwide basis, but participates in three principal economic environments.

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	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Revenue from customers	43,338	36,703	38,189	40,925	8,171	3,749	1,120	956
Profit from operations	8,416	668	(6,141)	3,185	(850)	(272)	1,098	(123)
Segment assets	129,732	127,006	5,565	-	-	-	-	-
Capital expenditure incurred during the period	1,548	444	-	884	-	-	-	-

3. Other revenue and other net income

	Six months ended 30 September	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Other revenue:		
Gross rental income from investment properties	68	66
Interest income	133	273
Royalty income	418	108
Others	97	108
	716	555
Other net income:		
Exchange gain, net	1,278	720
Loss on disposal of fixed assets	(17)	(19)
	1,261	701

4. Profit from ordinary activities before taxation

The Group's profit from ordinary activities before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Six months ended 30 September	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Interest on bank borrowings repayable within five years	533	638
Interest on bank borrowings repayable after five years	170	128
Finance charges on obligations under finance leases	15	9
	718	775

(b) Other items

	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Cost of inventories	67,492	54,132
Staff costs		
– Salaries and staff benefits	10,688	11,360
– Retirement costs	358	378
Depreciation		
– assets held for use under finance leases	122	55
– owned fixed assets	979	830
Operating lease charges in respect of properties	540	1,005
Rentals receivable from investment properties less outgoings of HK\$2,000 (six months ended 30 September 2002: HK\$2,000)	(66)	(64)

5. Taxation

	Six months ended 30 September	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Provision for Hong Kong Profits Tax	160	200
PRC taxation	30	32
	190	232

The provision for Hong Kong Profits Tax is calculated at the rate of 17.5% (2002:16%) of the estimated assessable profit during the period. PRC taxation is charged at the appropriate current rates of taxation ruling in the PRC.

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

6. Dividends

The directors do not recommend any interim dividend for the six months ended 30 September 2003 (2002: Nil).

7. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$1,771,000 (2002: HK\$2,451,000) and on the weighted average of 280,000,000 shares (2002: 280,000,000) in issue during the period.

No dilutive earnings per share was presented for the six months ended 30 September 2003 as the exercise of share options would have an anti-dilutive effect.

7. Earnings per share (Continued)

The calculation of diluted earnings per share for the six months ended 30 September 2002 is based on the net 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.

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 2003 HK\$'000 (unaudited)	31 March 2003 HK\$'000 (audited)
Accounts receivable		
– current	26,156	50,451
– 1 to 3 months overdue	6,365	13,764
– more than 3 months overdue but less than 12 months overdue	6,673	10,916
– more than 12 months overdue	1,410	1,429
	40,604	76,560
Bills receivable	3,089	26,924
	43,693	103,484

9. Accounts and bills payable

Ageing analysis of accounts payable is as follows:

	30 September 2003 HK\$'000 (unaudited)	31 March 2003 HK\$'000 (audited)
Accounts payable		
– due within 1 month or on demand	7,117	14,425
– due after 1 month but within 3 months	4,018	6,412
– due after 3 months but within 6 months	15,675	16,216
– due after 6 months but within 1 year	–	1,715
	26,810	38,768
Bills payable	5,814	19,746
	32,624	58,514

10. Share Capital

	30 September 2003		31 March 2003	
	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 2003 HK\$'000 (unaudited)	31 March 2003 HK\$'000 (audited)
Contracted but not provided for in respect of		
– purchase of land	828	828
– capital injection to a wholly-owned subsidiary in the PRC	7,647	7,647
	5,927	5,927
– loan to an associate	14,402	14,402
	14,402	14,402

(b) Operating lease commitments

At 30 September 2003, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	30 September 2003 HK\$'000 (unaudited)	31 March 2003 HK\$'000 (audited)
Within 1 year	1,254	534
After 1 year but within 5 years	241	21
	1,495	555

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. These instruments are used solely to reduce or eliminate the financial risk associated with the Group's assets and liabilities and not for trading or speculation purposes.

The contracted notional amounts of derivative instruments outstanding 30 September 2003 are as follows:

	30 September 2003 HK\$'000 (unaudited)	31 March 2003 HK\$'000 (audited)
Foreign exchange forwards		
maturing in less than 1 year		
– sales	8,682	41,211
– purchases	34,659	9,365

13. Contingent liabilities

At 30 September 2003, 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\$1,769,000 (31 March 2003: HK\$1,886,000) and HK\$22,883,000 (31 March 2003: HK\$26,043,000) respectively.

Management Discussion and Analysis

Results

The Group recorded a turnover of approximately HK\$90,818,000 for the six months ended 30 September 2003, representing a moderate increase of 11% over the last corresponding period. The Group's profit attributable to shareholders of approximately HK\$1,771,000, representing a decrease of 28% over the same period of last year. Earnings per share for the period ended 30 September 2003 was HK0.6 cent (2002: HK0.9 cent).

Business review

Despite the challenging market conditions, the Group had recorded a growth on the sales for the period under review. The increase in sales was mainly attributable to the increased sales of parts and engineering services for buses and coaches in Hong Kong and increased sales of luxury yachts to the US and European markets. Profit margins were squeezed due to the continued strong Euro pressure. As most of the Group's products were sourced from Europe, the continuing strong Euro against US dollars sharply increased our cost of sales during the period, which affected the Group's profitability. Therefore, the profit attributable to shareholders was decreased by 28% when compared with the corresponding period of last year.

The Group's recurrent revenue came from its provision of engineering services for trucks and buses and the sales of trucks in Hong Kong. Under the economic conditions in the first half of the year, the sales of trucks in Hong Kong was generally subject to downward pressures on the sales and the profit margins. The Group's provision of engineering services for buses showed a satisfactory performance during the period.

On the other hand, the negotiation process of many major projects slowed down because of the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the early of this year. This resulted in the lower-than-expected performance of the sales to PRC during the period under review.

The newly setup entity in Zhuhai engaged in logistics equipment and assembling and integrating railway maintenance equipment and related systems has commenced its operations even though in the small scale. The sales of luxury yachts were improved as compared to the same period of last year. Management believes that the performance will be improved in the coming year after the implementation of some cost control measures.

Management Discussion and Analysis (Continued)

Prospects

With the end of the SARS outbreak in June this year, the Group believes that the continuous economic progress in the PRC market will further increase the demand for the railway maintenance equipment and airport ground support equipment.

In future, the Group will continue to focus on the PRC market. At the same time, the Group will put great efforts on improving its cost structure and reducing its overheads in order to maintain its competitive edge. The Group has combined its two offices in Hong Kong in August 2003. The Group expects that this will further reduce our overall administrative costs.

Employees and remuneration policy

As at 30 September 2003, the Group employed 119 staff in Hong Kong and the PRC. The Group's remuneration packages include basic salary, double pay, commission, share option scheme and insurance. The Group's emolument policies are formulated based on individual performance and the salary trend in the regions will be reviewed annually. As at the date hereof, a total of 10,000,000 share options are granted to selected eligible executives.

Liquidity and Financial Resources

Liquidity

The Group generally finances its operations from cash generated from operating activities and banking facilities. As at 30 September 2003, the Group's total bank borrowings was approximately HK\$30,685,000 (31 March 2003: HK\$41,533,000). Of the total bank borrowings, HK\$21,652,000 was repayable within one year and the balance was repayable after one year. The Group's gearing ratio (total borrowings over total assets) was 17% (31 March 2003: 20%).

As at 30 September 2003, the Group had cash and bank balances including pledged fixed deposits totalling HK\$55,324,000 (31 March 2003: HK\$34,714,000). The Group's cash, bank balances and bank borrowings were mainly denominated in US dollars, Euro and Hong Kong dollars. The annual interest rates of such borrowings for the period under review were ranged from prime rate to prime rate plus 0.5%.

The Group had total assets of approximately HK\$180,373,000 which were financed by shareholders' equity of approximately HK\$95,108,000 and liabilities of approximately HK\$85,265,000. The current ratio of the Group was 1.8 (31 March 2003: 1.6).

Liquidity and Financial Resources (Continued)

Exchange exposure and hedging

The business operations of the Group are mainly transacted in US dollars, Euro, Renminbi, Japanese Yen and Hong Kong dollars. Most of the Group's sales are conducted in US dollars and Hong Kong dollars while purchases are conducted in Euro. 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 currency 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. Accordingly, the outstanding hedging instrument as at 30 September 2003 was approximately HK\$43,341,000.

Charge on the Group assets

As at 30 September 2003, certain of the Group's land and buildings with an aggregate carrying value of HK\$18,656,000 (31 March 2003: HK\$18,861,000) and bank deposits of HK\$11,268,000 (31 March 2003: HK\$12,777,000) were pledged to banks to secure general banking facilities granted to its subsidiaries.

Use of Proceeds

The net proceeds from the initial public offering, after deducting related expenses, amounted to approximately HK\$32 million. At 30 September 2003, the Group has utilised approximately HK\$3,021,000 for the expansion of the sales and marketing team in both Hong Kong and the PRC; HK\$2,852,000 for the expansion of the Group's after sale services, including acquiring and upgrading in-house facilities and the recruitment of additional engineers; HK\$4,073,000 for participating to form a joint venture in the acquisition of the property for the development of warehousing business. The Group also used HK\$2,953,000 for setting up a wholly foreign owned enterprise in the PRC to engage in inter alia, developing, design, manufacturing and sales of sorting and conveyor system, welding machines and railway maintenance equipment; HK\$2,224,000 to promote the Group's corporate profile by participating in relevant exhibitions and organizing seminars introducing new equipment to potential customers. Another HK\$8,000,000 has been used as general working capital. The remaining of unused proceeds is placed on short term deposits with various banks in Hong Kong.

Purchase, Redemption or Sale of the Company's Listed Shares

Neither the company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period under review.

Directors' Interests in Shares and Underlying Shares

As at 30 September 2003, the interests and short position of the directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company under section 352 of the SFO, are set out below:

(i) Long position in the ordinary shares of the Company

Name of director	Ordinary shares of HK\$0.1 each				Total
	Personal interests	Family interests	Corporate Interests	Other interests	
Fong Kit Wah, Alan	900,000	–	131,000,000 (Note)	–	131,900,000

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.

Directors' Interests in Shares and Underlying Shares (Continued)

(ii) Interests in the underlying shares of the Company

Name of director	Nature of interests	Number of underlying shares held under share options
Mr. Fong Kit Wah, Alan	Personal	3,000,000
Mr. Rourke James Grierson	Personal	1,000,000
Ms. Cheung Miu Sin	Personal	1,000,000
Mr. Law Yiu Lun	Personal	1,000,000
Mr. Wong Man Chung, Francis	Personal	1,000,000
Mr. Yin Jie	Personal	1,000,000

Details of the share options held by the Directors and Chief Executives of the Company are shown in the section under the headings "Share Option Scheme"

(iii) 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 2003, none of the directors or chief executive or their associates had any interests and short positions in the shares, underlying shares of the Company and its associated corporations (within the meaning of the SFO) to be notified to the Company and the Stock Exchange pursuant to Section 352 of the SFO, to be entered in the register referred to therein.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the headings "Directors' interests in shares and underlying 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 or underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) granted to any director or their respective spouse or children under 18 years of age, 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 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.

During the six months ended 30 September 2003, the movements in the number of options outstanding which have been granted by the Company to the directors, executives and employees of the Company under the Company's share option scheme were set out below:

Name or category of Participant	Date of grant of share option	Exercise price HK\$	Exercise period	Outstanding at 1 April 2003	Number of share options	
					Exercised during the period	Outstanding at 30 September 2003
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
Ms. Cheung Miu Sin	9 September 2002	0.365	16 September 2002 to 15 September 2005	1,000,000	-	1,000,000

Share Option Scheme (Continued)

Name or category of Participant	Date of grant of share option	Exercise price HK\$	Exercise period	Outstanding at 1 April 2003	Number of share options	
					Exercised during the period	Outstanding at 30 September 2003
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 executives						
	9 September 2002	0.365	16 September 2002 to 15 September 2005	2,000,000	-	2,000,000
				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 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. Therefore the directors believe that the costs for disclosing the value of options do not justify for the benefits provided.

Substantial Shareholders

As at 30 September 2003, the following persons (other than the directors or the chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register of substantial shareholders' interests and short positions required to be kept by the Company under section 336 of Part XV of the SFO:

	Ordinary shares held	Percentage of total issued shares
Speedway	131,000,000	46.79% (Note (1))
Goodwell Group Invest Limited ("Goodwell")	60,112,000	21.47% (Note (2))

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 owned by China National Aviation Corporation (Group) Limited ("CNAC"), a company incorporated in Hong Kong, which is in turn wholly-owned by China National Aviation Corporation, a company established in the PRC. China National Aviation Corporation is in turn wholly-owned by China National Aviation Holding Company, a state-owned enterprise established in the PRC.

Save as disclosed above, the Company has not been notified by any person (other than the directors of the Company) who had interests or short positions in the shares or underlying shares of the Company as at 30 September 2003 which were required to be disclosed to the Company under Part IV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Audit Committee

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited interim financial statements for the six months ended 30 September 2003.

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”) throughout the accounting period covered by the interim results, except that the 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 2003