



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 the "Group") for the six months ended 30 September 2004 together with the comparative figures for the corresponding period in 2003. This interim financial report has not been audited, but has been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2004

		Six months ended 30 September	
	Notes	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Turnover	2	83,568	90,818
Cost of sales/services		(68,938)	(73,726)
Gross profit		14,630	17,092
Other revenue	3	325	716
Other net income	3	1,638	1,261
Distribution costs		(6,702)	(7,660)
Administrative expenses		(8,129)	(8,886)
Profit from operations		1,762	2,523
Finance costs	4(a)	(464)	(718)
Profit from ordinary activities before taxation	4	1,298	1,805
Taxation	5	(27)	(190)
Profit from ordinary activities after taxation		1,271	1,615
Minority interests		81	156
Profit attributable to shareholders		1,352	1,771
Basic earnings per share	6	0.48 cent	0.63 cent



CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 September 2004

	Notes	At 30 September 2004 HK\$'000 (unaudited)	At 31 March 2004 HK\$'000 (audited)
Non-current assets			
Fixed assets			
– Investment properties		3,790	3,790
– Other fixed assets		33,624	32,464
		37,414	36,254
Construction in progress		2,366	2,366
Intangible assets		907	–
Finance lease receivable		154	209
Deferred taxation		921	921
		41,762	39,750
Current assets			
Inventories		12,897	13,020
Accounts and bills receivable	8	36,975	62,452
Prepayments, deposits and other receivables		7,120	6,978
Amount due from a related company		182	372
Current taxation recoverable		2,307	2,307
Finance lease receivable		108	105
Pledged bank deposits		10,887	10,885
Cash and cash equivalents		57,887	59,556
		128,363	155,675



CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

as at 30 September 2004

	Notes	At 30 September 2004 HK\$'000 (unaudited)	At 31 March 2004 HK\$'000 (audited)
Current liabilities			
Bank loans and overdraft		12,612	14,926
Obligations under finance leases		332	324
Accounts and bills payable	9	48,942	72,265
Deposits, other payables and accrued charges		6,630	8,080
Provision for warranties		505	284
Current taxation payable		45	45
		69,066	95,924
Net current assets			
		59,297	59,751
Total assets less current liabilities			
		101,059	99,501
Non-current liabilities			
Bank loans		9,690	9,235
Obligations under finance leases		440	608
Deferred taxation		32	32
		10,162	9,875
Minority interests		508	589
NET ASSETS			
		90,389	89,037
CAPITAL AND RESERVES			
Share capital	10	28,000	28,000
Reserves		62,389	61,037
		90,389	89,037



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2004

	Six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Shareholders' equity at 1 April	89,037	95,720
Translation adjustment	–	64
Net profit for the period	1,352	1,771
Dividends	–	(2,800)
Shareholders' equity at 30 September	90,389	94,755



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2004

	Six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operations	4,932	36,047
Net cash (used in)/generated from investing activities	(3,228)	81
Net cash used in financing activities	(3,582)	(11,633)
(Decrease)/increase in cash and cash equivalents	(1,878)	24,495
Cash and cash equivalents at beginning of period	58,282	18,559
Effect on foreign exchange rate changes	–	(8)
Cash and cash equivalents at end of period	56,404	43,046
Analysis of cash and cash equivalents		
Cash at bank and in hand	57,887	44,056
Bank overdrafts	(1,483)	(1,010)
	56,404	43,046



NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of Presentation and Accounting Policies

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 (the "Stock Exchange") and Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies adopted are consistent with those used in the annual financial statements for the year ended 31 March 2004. These interim financial statements should be read in conjunction with the 2004 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.



2. Segment Reporting (Continued)

	Six months ended 30 September							
	Sales and distribution		Provision of engineering services and sales of spare parts		Unallocated		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Revenue from external customers	67,261	57,203	16,307	33,615	-	-	83,568	90,818
Other revenue from external customers	-	-	-	-	325	716	325	716
Total	67,261	57,203	16,307	33,615	325	716	83,893	91,534
Segment results	(20)	(2,176)	2,637	4,325			2,617	2,149
Unallocated operating income and expenses							(855)	374
Profit from operations							1,762	2,523
Finance costs							(464)	(718)
Taxation							(27)	(190)
Minority interests							81	156
Profit attributable to shareholders							1,352	1,771
Depreciation for the period	542	289	245	254	575	558		
Segment assets	122,076	88,936	33,414	46,361			155,490	135,297
Unallocated assets							14,635	45,076
Total assets							170,125	180,373
Segment liabilities	57,317	63,172	8,494	8,900			65,811	72,072
Unallocated liabilities							13,925	13,193
Total liabilities							79,736	85,265
Capital expenditure incurred during the period	12	1,002	2,361	2	102	544		



2. Segment Reporting (Continued)

Geographical segments

The Group's business is managed on a worldwide basis, but participates in three 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	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Revenue from external customers	18,699	43,338	61,281	38,189	2,426	8,171	1,162	1,120
Segment assets	150,100	160,904	18,498	19,469	-	-	1,527	-
Capital expenditure incurred during the period	1,807	1,548	668	-	-	-	-	-



3. Other revenue and other net income

	Six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Other revenue:		
Gross rental income from investment properties	82	68
Interest income	199	133
Others	44	515
	325	716
Other net income:		
Exchange gain, net	1,634	1,278
Gain/(loss) on disposal of fixed assets	4	(17)
	1,638	1,261

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	
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on bank borrowings repayable within five years	297	533
Interest on bank borrowings repayable after five years	145	170
Finance charges on obligations under finance leases	22	15
	464	718



4. Profit from ordinary activities before taxation (Continued)

(b) Other items

	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Cost of inventories	63,908	67,492
Staff costs		
– Salaries and staff benefits	8,851	10,688
– Retirement costs	385	358
Depreciation		
– assets held for use under finance leases	175	122
– owned fixed assets	1,187	979
Operating lease charges in respect of properties	439	540
Rentals receivable from investment properties less direct outgoings of HK\$900 (six months ended 30 September 2003: HK\$2,000)	(81)	(66)

5. Taxation

	Six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current taxation		
Hong Kong profits tax	–	160
PRC income tax	27	30
	27	190



5. Taxation (Continued)

No provision for Hong Kong profits tax was made for the current period as the tax losses brought forward from the previous year exceeded the assessable profit for the period. PRC taxation is charged at the appropriate current rates of taxation ruling in the PRC.

6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the period of HK\$1,352,000(2003: HK\$1,771,000) and the weighted average number of 280,000,000 ordinary shares (2003: 280,000,000 shares) in issue during the period.

No dilutive earnings per share was presented for the six months ended 30 September 2003 and 2004 as the exercise of share options would have an anti-dilutive effect.

7. Interim dividend

The directors do not recommend any interim dividend for the six months ended 30 September 2004 (2003: Nil).

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 2004 HK\$'000 (unaudited)	31 March 2004 HK\$'000 (audited)
Accounts receivable		
– current	18,847	38,543
– 1 to 3 months overdue	6,396	8,458
– more than 3 months overdue but less than 12 months overdue	9,575	7,877
– more than 12 months overdue	1,138	1,010
	35,956	55,888
Bills receivable	1,019	6,564
	36,975	62,452



9. Accounts and bills payable

Ageing analysis of accounts payable is as follows:

	30 September 2004 HK\$'000 (unaudited)	31 March 2004 HK\$'000 (audited)
Accounts payable		
– due within 1 month or on demand	22,543	41,077
– due after 1 month but within 3 months	6,682	4,717
– due after 3 months but within 6 months	18,013	12,891
– due after 6 months but within 1 year	–	699
	47,238	59,384
Bills payable	1,704	12,881
	48,942	72,265

10. Share capital

	30 September 2004		31 March 2004	
	Number of shares (‘000) (unaudited)	Amount HK\$'000 (unaudited)	Number of shares (‘000) (audited)	Amount HK\$'000 (audited)
Authorised:				
Ordinary shares of HK\$0.1 each	2,000,000	200,000	2,000,000	200,000
Issued and fully paid:				
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	31 March
	2004	2004
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Capital commitments, contracted but not provided for in respect of – purchase of land:	356	356
	356	356

(b) Operating lease commitments

At 30 September 2004, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	30 September	31 March
	2004	2004
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Within 1 year	547	414
After 1 year but within 5 years	35	45
	582	459

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.

12. Off-balance sheet financial instruments (Continued)

The contracted notional amounts of derivative instruments outstanding 30 September 2004 are as follows:

	30 September 2004 HK\$'000 (unaudited)	31 March 2004 HK\$'000 (audited)
Foreign exchange forwards maturing in less than 1 year		
– sales	953	–
– purchases	281	45,063

13. Contingent liabilities

At 30 September 2004, 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\$546,000 (31 March 2004: HK\$830,000) and HK\$14,108,000 (31 March 2004: HK\$26,043,000) respectively.

14. Related party transactions

During the period, the Group had the following material transactions with related parties:

		Six months ended 30 September 2004 HK\$'000	2003 HK\$'000
Rental paid	(i)	187	187
Sales of goods	(ii)	1,243	–

- (i) Fong Kit Wah Alan, a director of the Company, leased a property in the PRC to the Group as the office premises of a representative office of the Group under normal commercial terms.
- (ii) The Group sold a yacht to Island Gypsy Pty Ltd which 50% of its issued shares was owned by Mr. Harvey Halvorsen, being a substantial shareholder and a director of Yardway Marine Limited, a subsidiary of the Company under normal commercial terms as it traded with independent third party.



MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the six months ended 30 September 2004, the Group's turnover amounted to approximately HK\$83,568,000, representing a slightly decrease of approximately 8% compared to HK\$90,818,000 of the same period of last year. The net profit attributable to shareholders slightly decreased by 23.7% to HK\$1,352,000, compared to the same corresponding period in 2003.

Business Review

During the period, the Group continues to engage in the sale and distribution of railway maintenance equipment, airport ground support equipment, coaches and trucks and provision of engineering services.

The substantial sales were mainly derived from the railway maintenance equipment division in which a few large projects were completed during the period under review. Sales of airport ground support equipment were decreased due to the unfavourable market sentiment as well as the fierce market competition. The decrease in the sales of provision of engineering services for buses was attributable to the warranty period for some buses had expired. These factors resulted in a slightly decrease in sales for the Group during the period under review. The strong Euro currency remained an unfavourable factor to the Group as the Group's purchases were mainly sourced from Europe. This resulted in slackening gross profit and the business performance of the Group. However, sales orders for the coming year are encouraging.

In order to reduce its overhead, the Group has recently purchased a warehouse for storing the stocks and terminated the lease for the existing warehouse accordingly. The distribution costs and administrative expenses were slightly decreased as the Group exercised effective cost control measures.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Outlook

As the effect of strong Euro will be continued, the Group will keep on to reduce operating expenses in order to improve the results performance.

Hong Kong's economy has been on the track of recovery and the continuous economic progress in the PRC market will further increase the demand for the transport related equipment. In order to broaden the income base of the Group, the Group has captured the new business opportunities but they are still in its initial stage. The Directors consider that the outlook of the Group continues to be promising.

Appreciation

The directors and management would like to extend our gratitude and sincere appreciation to all staff for their contributions to the Group during the period under review.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2004, the Group employed 106 staff in Hong Kong and the PRC. Remuneration packages are based on individual performance, work profile and the prevailing market condition. The remuneration packages include basic salary, double pay, and commission, insurance and mandatory provident fund. Share options might also be granted to eligible employees of the Group. The packages are reviewed annually by the management.

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity

As at 30 September 2004, the Group had net assets of approximately HK\$90,389,000 (31 March 2004: HK\$89,037,000).

The Group generally finances its operations with internally generated resources and banking facilities provided by its bankers. As at 30 September 2004, the Group had cash and bank balances including pledged fixed deposits totalling HK\$68,774,000 (31 March 2004: HK\$70,441,000). The Group's cash and bank balances were mainly denominated in United States dollars, Euro and Hong Kong dollars.



LIQUIDITY AND FINANCIAL RESOURCES (Continued)

Liquidity (Continued)

As at 30 September 2004, the Group's outstanding borrowings amounted to approximately HK\$22,302,000 (31 March 2004: HK\$24,161,000). Most of these bank borrowings were denominated in Hong Kong dollars, United States dollars and Euro bearing floating interest rates. As at 30 September 2004, the Group had a current ratio of 1.86, calculated on the basis of current assets over current liabilities (31 March 2004:1.62) and a gearing ratio (total borrowings to total assets) of 14% (31 March 2004: 13%).

Exchange exposure and hedging

Same as last year, the Group mainly earns revenue in the currencies of United States dollars, Renminbi and Hong Kong dollars while the costs are substantially denominated in Euro. As a result, the Group is subject to foreign currency exposure. Any significant volatility and weakening of United States dollars against Euro could adversely affect the Group's business and the results of operations.

The Group mainly used foreign exchange contracts for hedging purposes. As at 30 September 2004, the Group had total outstanding forward foreign exchange contracts amounting to approximately HK\$1,235,000.

Charge on assets

As at 30 September 2004, the Group had pledged its land and buildings situated in Hong Kong with an aggregate net book value amounting to HK\$18,961,000 (31 March 2004: HK\$19,100,000) and bank deposits of HK\$10,887,000 (31 March 2004: HK\$10,885,000) to secure banking facilities granted to the Group.

USE OF PROCEEDS

The Group raised approximately HK\$32 million, net of related expenses, from initial public offering of the Company on 28 March 2002. The unused net proceeds of approximately HK\$3 million and HK\$5 million will apply to 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 and the design, development and installation of logistics related equipment; and to construct a processing plant in Zhuhai for assembling railway maintenance equipment like welding machine and grinding stone respectively.

The remaining net proceeds are currently 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' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The directors and chief executive of the Company who held office at 30 September 2004 had the following interests in the shares of the Company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at the date as recorded in the register of directors' and chief executives' interests required to be kept by the Company under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors and Listed Companies:

(i) Interests in 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	2,128,000	–	131,000,000	–	133,128,000

(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, 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.



DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(iii) Interests in underlying shares

The directors and chief executive of the Company have been granted options under the Company's share option scheme, details of which are set out in the section "Share option scheme" below.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' and chief executive's interests in shares and short positions in shares, underlying shares and debentures" above and "Share option scheme" below, at no time during the period under review was the Company or any of its holding company or subsidiaries a party to any arrangements to enable the directors, chief executive and their respective spouses and children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 28 March 2002, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the group's operations. Under this scheme, the directors of the Company are authorised, at their discretion, to invite employees of the group, including directors of any company in the group, to take up options to subscribe for shares of the Company. The share option scheme, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

In respect of the maximum entitlement of each participant under the scheme, the number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

SHARE OPTION SCHEME (Continued)

The subscription price for share under the share option scheme shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of shares of the company as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day; (ii) the average closing price of the shares of the company as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of the shares of the company.

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 exercisable period. The total number of shares available for issue under the share option scheme at 30 September 2004 represented 2.9% (31 March 2004: 3.2%) of the issued share capital of the Company at that date. No share option was exercised to subscribe for shares of the Company during the period.

At 30 September 2004, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company under the share option scheme of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.1 each of the Company.



SHARE OPTION SCHEME (Continued)

Name or category of participant	Date granted	Exercise price per share HK\$	Exercise period	Number of share options				At 30 September 2004
				At 1 April 2004	Granted during the period	Exercised during the period	Cancelled during the period	
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
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

SHARE OPTION SCHEME (Continued)

Name or category of participant	Date granted	Exercise price per share HK\$	Exercise period	Number of share options				At 30 September 2004
				At	Granted	Exercised	Cancelled	
				1 April 2004	during the period	during the period	during the period	
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
				<u>9,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>8,000,000</u>

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.



SHARE OPTION SCHEME (Continued)

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' INTEREST IN SHARES AND UNDERLYING SHARES

The register of interests in shares and short positions maintained under section 336 of the SFO Ordinance shows that at 30 September 2004, other than the interests disclosed above in respect of Fong Kit Wah, Alan and Speedway, the following company had an interest of 5% or more in the issued share capital of the company:

	Ordinary shares held	Percentage of total issued shares
Goodwell Group Invest Limited ("Goodwell")	64,576,000	23.06% (Note)

Notes: 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 ultimately wholly-owned by China National Aviation Holding Limited, a state-owned enterprise established in the PRC.

Save as stated above, no other person is recorded in the register of substantial shareholders maintained under section 336 of the SFO Ordinance as having an interest of 5% or more in the issued share capital of the company as at 30 September 2004.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30 September 2004.

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 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 2004