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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

**Executive Directors:**

Mr. Fong Kit Wah, Alan  
*(Chairman and Managing Director)*  
Mr. Rourke James Grierson  
Ms. Cheung Miu Sin

**Non-executive Director:**

Mr. Yin Jie

**Independent Non-executive Directors:**

Mr. Wong Man Chung, Francis  
Mr. Chan Ting Kwong  
Ms. Fung Siu Wan, Stella

### AUDIT COMMITTEE

Mr. Wong Man Chung, Francis *(Chairman)*  
Mr. Chan Ting Kwong  
Ms. Fung Siu Wan, Stella

### REMUNERATION COMMITTEE

Ms. Fung Siu Wan Stella *(Chairman)*  
Mr. Wong Man Chung, Francis  
Mr. Chan Ting Kwong  
Ms. Cheung Miu Sin

### NOMINATION COMMITTEE

Mr. Chan Ting Kwong *(Chairman)*  
Mr. Wong Man Chung, Francis  
Ms. Fung Siu Wan, Stella

### COMPANY SECRETARY

Mr. Cheng Siu Kwan

### AUDITORS

KPMG  
8/F, Prince's Building  
10 Chater Road  
Central  
Hong Kong

### SOLICITORS

Tracy Ong & Co.  
3908A 39th Floor Jardine House  
1 Connaught Place  
Hong Kong

### REGISTER OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1st Floor, Prosun Building  
2-6 Fui Yiu Kok Street  
Tsuen Wan  
New Territories  
Hong Kong

### PRINCIPAL SHARE REGISTRARS

Bank of Butterfield International (Cayman) Ltd.  
P.O. Box 705  
Butterfield House  
68 Fort Street  
George Town  
Grand Cayman  
Cayman Islands

### HONG KONG BRANCH SHARE REGISTRARS

Standard Registrars Limited  
26/F, Tesbury Centre  
28 Queen's Road East, Wanchai  
Hong Kong

### PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited  
Bank of China (Hong Kong) Limited

### COMPANY WEBSITE

[www.yardway.com.hk](http://www.yardway.com.hk)

## INTERIM RESULTS

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 2006 together with the comparative figures for the corresponding period in 2005. The interim results for the six months ended 30 September 2006 have been reviewed by the Company's audit committee.

## CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2006

(Expressed in Hong Kong dollars)

|  |      | <b>Six months ended<br/>30 September</b> |             |
|--|------|--|-------------|
|  |      | <b>2006</b>                              | 2005        |
|  |      | <b>\$'000</b>                            | \$'000      |
|  |      | <b>(Unaudited)</b>                       | (Unaudited) |
|  | Note |  |             |
| <b>Turnover</b>                              | 2    | <b>93,321</b>                            | 69,155      |
| Cost of sales/services                       |      | <b>(71,229)</b>                          | (54,133)    |
| <b>Gross profit</b>                          |      | <b>22,092</b>                            | 15,022      |
| Other revenue                                | 3    | <b>2,474</b>                             | 2,207       |
| Other net loss                               | 3    | <b>(36)</b>                              | (732)       |
| Distribution costs                           |      | <b>(9,000)</b>                           | (7,056)     |
| Administrative expenses                      |      | <b>(10,648)</b>                          | (8,744)     |
| Valuation gains on investment property       |      | <b>-</b>                                 | 2,000       |
| <b>Profit from operations</b>                |      | <b>4,882</b>                             | 2,697       |
| Finance costs                                | 4(a) | <b>(935)</b>                             | (677)       |
| Share of loss of jointly controlled entities |      | <b>(601)</b>                             | -           |
| <b>Profit before taxation</b>                | 4    | <b>3,346</b>                             | 2,020       |
| Income tax                                   | 5    | <b>(353)</b>                             | (5)         |
| <b>Profit for the period</b>                 |      | <b>2,993</b>                             | 2,015       |
| <b>Attributable to:</b>                      |      |  |             |
| Equity shareholders of the Company           |      | <b>2,489</b>                             | 1,948       |
| Minority interests                           |      | <b>504</b>                               | 67          |
| <b>Profit for the period</b>                 |      | <b>2,993</b>                             | 2,015       |
| <b>Earnings per share</b>                    |      |  |             |
| Basic  | 7    | <b>0.89 cent</b>                         | 0.70 cent   |

The notes on pages 7 to 19 form part of this interim financial report.

**CONSOLIDATED BALANCE SHEET**

At 30 September 2006

(Expressed in Hong Kong dollars)

|   | At<br>30 September<br>2006<br>\$'000<br>(unaudited) | At<br>31 March<br>2006<br>\$'000<br>(audited) |
|---|---|---|
| Note  |   |   |
| <b>Non-current assets</b>   |   |   |
| Fixed assets  |   |   |
| – Investment properties   | 21,410  | 21,410  |
| – Other property, plant and equipment                                   | 26,584  | 26,739  |
| – Interest in leasehold land held for<br>own use under operating leases | 961   | 984   |
|   | 48,955  | 49,133  |
| <b>Current assets</b>   |   |   |
| Trading securities – listed in Hong Kong                                | 761   | 686   |
| Inventories   | 14,459  | 14,534  |
| Trade and other receivables   | 59,750  | 59,640  |
| Current taxation recoverable  | 1,918   | 1,896   |
| Finance lease receivable  | 39  | 98  |
| Pledged bank deposits   | 10,387  | 9,032   |
| Cash and cash equivalents   | 61,610  | 85,451  |
|   | 148,924   | 171,337                                       |
| <b>Current liabilities</b>  |   |   |
| Trade and other payables  | 67,335  | 87,157  |
| Bank loans and overdrafts   | 13,274  | 16,294  |
| Obligations under finance leases  | 386   | 366   |
| Current taxation  | 354   | 16  |
| Provision   | 166   | 99  |
|   | 81,515  | 103,932                                       |
| <b>Net current assets</b>   | 67,409  | 67,405  |
| <b>Total assets less current liabilities</b>                            | 116,364   | 116,538                                       |

**CONSOLIDATED BALANCE SHEET (Continued)**

At 30 September 2006

(Expressed in Hong Kong dollars)

|  | Note | At<br>30 September<br>2006<br>\$'000<br>(unaudited) | At<br>31 March<br>2006<br>\$'000<br>(audited) |
|--|------|---|---|
| <b>Non-current liabilities</b>   |      |   |   |
| Bank loans   |      | 7,369   | 7,763   |
| Obligations under finance leases                                       |      | 404   | 291   |
| Deferred tax liabilities   |      | 40  | 87  |
|  |      | 7,813   | 8,141   |
| <b>NET ASSETS</b>  |      |   |   |
|  |      | 108,551   | 108,397                                       |
| <b>CAPITAL AND RESERVES</b>  |      |   |   |
| Share capital  | 12   | 28,000  | 28,000  |
| Reserves   | 13   | 79,280  | 79,630  |
| <b>Total equity attributable to equity shareholders of the Company</b> |      |   |   |
|  |      | 107,280   | 107,630                                       |
| <b>Minority interests</b>  |      |   |   |
|  |      | 1,271   | 767   |
| <b>TOTAL EQUITY</b>  |      |   |   |
|  |      | 108,551   | 108,397                                       |

The notes on pages 7 to 19 form part of this interim financial report.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 September 2006

(Expressed in Hong Kong dollars)

|      |   | <b>Six months ended<br/>30 September</b> |             |
|------|---|--|-------------|
|      |   | <b>2006</b>                              | 2005        |
|      |   | <b>\$'000</b>                            | \$'000      |
|      |   | <b>(Unaudited)</b>                       | (Unaudited) |
| Note |   |  |             |
|      | <b>Total equity at 1 April:</b>                                 | <b>108,397</b>                           | 102,276     |
|      | <b>Net income for the period recognised directly in equity:</b> |  |             |
|      | Exchange differences on translation of:                         |  |             |
|      | – financial statements of overseas subsidiary                   | <b>(39)</b>                              | 46          |
|      | <b>Net profit for the period:</b>                               |  |             |
|      | Attributable to equity shareholders of the Company              | <b>2,489</b>                             | 1,948       |
|      | Minority interests  | <b>504</b>                               | 67          |
|      |   | <b>2,993</b>                             | 2,015       |
|      | <b>Total recognised income and expense for the period</b>       | <b>2,954</b>                             | 2,061       |
|      | Dividends declared  | <b>(2,800)</b>                           | (2,800)     |
|      | <b>Total equity at 30 September</b>                             | <b>108,551</b>                           | 101,537     |

The notes on pages 7 to 19 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2006

(Expressed in Hong Kong dollars)

|   | Note | Six months ended<br>30 September |                               |
|---|------|----------------------------------|-------------------------------|
|   |      | 2006<br>\$'000<br>(Unaudited)    | 2005<br>\$'000<br>(Unaudited) |
| <b>Cash used in operations</b>                                    |      | <b>(18,478)</b>                  | (3,881)                       |
| <b>Tax paid</b>   |      | <b>(84)</b>                      | (90)                          |
| <b>Net cash used in operating activities</b>                      |      | <b>(18,562)</b>                  | (3,971)                       |
| <b>Net cash (used in)/generated from<br/>investing activities</b> |      | <b>(1,304)</b>                   | 2,256                         |
| <b>Net cash used in financing activities</b>                      |      | <b>(4,007)</b>                   | (5,086)                       |
| <b>Decrease in cash and cash equivalents</b>                      |      | <b>(23,873)</b>                  | (6,801)                       |
| <b>Cash and cash equivalents at beginning<br/>of period</b>       | 10   | <b>85,329</b>                    | 69,440                        |
| <b>Effect on foreign exchange rate changes</b>                    |      | <b>(39)</b>                      | (5)                           |
| <b>Cash and cash equivalents at end<br/>of period</b>             | 10   | <b>61,417</b>                    | 62,634                        |

The notes on pages 7 to 19 form part of this interim financial report.

## NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

### 1. Basis of presentation

The interim financial report has been prepared in accordance with applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). It was authorised for issuance on 18 December 2006.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements. In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2006. The adoption of the new standards, amendments and interpretations had no material effect on how the results for the current and /or prior accounting periods are prepared and presented.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by the Company's audit committee.

The financial information relating to the financial year ended 31 March 2006 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 18 July 2006.



## 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<br>engineering services<br>and sales of spare parts |                               | Unallocated                   |                               | Total                         |                               |
|  | 2006<br>\$'000<br>(unaudited) | 2005<br>\$'000<br>(unaudited) | 2006<br>\$'000<br>(unaudited)                                    | 2005<br>\$'000<br>(unaudited) | 2006<br>\$'000<br>(unaudited) | 2005<br>\$'000<br>(unaudited) | 2006<br>\$'000<br>(unaudited) | 2005<br>\$'000<br>(unaudited) |
| Revenue from external customers                | 70,859                        | 51,386                        | 22,462   | 17,769                        | -                             | -                             | 93,321                        | 69,155                        |
| Other revenue from external customers          | -                             | -                             | -  | -                             | 2,474                         | 2,207                         | 2,474                         | 2,207                         |
| <b>Total</b>                                   | <b>70,859</b>                 | <b>51,386</b>                 | <b>22,462</b>  | <b>17,769</b>                 | <b>2,474</b>                  | <b>2,207</b>                  | <b>95,795</b>                 | <b>71,362</b>                 |
| Segment results                                | 6,711                         | 2,614                         | (481)  | 302                           |                               |                               | 6,230                         | 2,916                         |
| Unallocated operating income and expenses      |                               |                               |  |                               |                               |                               | (1,348)                       | (219)                         |
| Profit from operations                         |                               |                               |  |                               |                               |                               | 4,882                         | 2,697                         |
| Finance costs                                  |                               |                               |  |                               |                               |                               | (935)                         | (677)                         |
| Share of loss of jointly controlled entities   | (601)                         | -                             | -  | -                             | -                             | -                             | (601)                         | -                             |
| Taxation                                       |                               |                               |  |                               |                               |                               | (353)                         | (5)                           |
| Profit after tax                               |                               |                               |  |                               |                               |                               | <b>2,993</b>                  | <b>2,015</b>                  |
| Depreciation and amortisation for the period   | 384                           | 493                           | 108  | 121                           | 1,180                         | 1,035                         |                               |                               |
| Valuation gains on investment property         | -                             | -                             | -  | -                             | -                             | (2,000)                       |                               |                               |
| Segment assets                                 | 122,473                       | 147,492                       | 32,651   | 19,998                        |                               |                               | 155,124                       | 167,490                       |
| Unallocated assets                             |                               |                               |  |                               |                               |                               | 42,755                        | 31,097                        |
| <b>Total assets</b>                            |                               |                               |  |                               |                               |                               | <b>197,879</b>                | <b>198,587</b>                |
| Segment liabilities                            | 66,428                        | 80,453                        | 11,651   | 4,399                         |                               |                               | 78,079                        | 84,852                        |
| Unallocated liabilities                        |                               |                               |  |                               |                               |                               | 11,249                        | 12,198                        |
| <b>Total liabilities</b>                       |                               |                               |  |                               |                               |                               | <b>89,328</b>                 | <b>97,050</b>                 |
| Capital expenditure incurred during the period | 1,782                         | 37                            | 90   | 43                            | 207                           | 1,305                         |                               |                               |

## 2. Segment reporting (Continued)

### Geographical segments

The Group's business is managed on a worldwide basis, but participates in four principal economic environments. Hong Kong and the People's Republic of China (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<br>of America |                               | Others                        |                               |
|  | 2006<br>\$'000<br>(unaudited) | 2005<br>\$'000<br>(unaudited) | 2006<br>\$'000<br>(unaudited) | 2005<br>\$'000<br>(unaudited) | 2006<br>\$'000<br>(unaudited)   | 2005<br>\$'000<br>(unaudited) | 2006<br>\$'000<br>(unaudited) | 2005<br>\$'000<br>(unaudited) |
| Revenue from external customers                | 22,944                        | 19,941                        | 67,039                        | 46,455                        | 1,287                           | 2,634                         | 2,051                         | 125                           |
| Segment assets                                 | 151,648                       | 170,002                       | 44,390                        | 28,350                        | -                               | -                             | 1,841                         | 235                           |
| Capital expenditure incurred during the period | 2,045                         | 1,303                         | 34                            | 82                            | -                               | -                             | -                             | -                             |

### 3. Other revenue and other net loss

|  | Six months ended<br>30 September |                               |
|--|----------------------------------|-------------------------------|
|  | 2006<br>\$'000<br>(unaudited)    | 2005<br>\$'000<br>(unaudited) |
| <b>Other revenue</b>   |                                  |                               |
| Gross rental income from investment properties                         | 870                              | 866                           |
| Interest income  | 1,352                            | 503                           |
| Royalty income   | 179                              | 335                           |
| Dividend income from listed securities                                 | 18                               | 11                            |
| Others   | 55                               | 492                           |
|  | <b>2,474</b>                     | <b>2,207</b>                  |
| <b>Other net loss</b>  |                                  |                               |
| Exchange loss, net   | (279)                            | (1,136)                       |
| Gain on sale of fixed assets   | 206                              | 388                           |
| Net gain on sale of trading securities                                 | 61                               | -                             |
| Net unrealised (loss)/gain on trading securities carried at fair value | (24)                             | 16                            |
|  | <b>(36)</b>                      | <b>(732)</b>                  |

#### 4. Profit before taxation

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

|  | Six months ended<br>30 September |                               |
|--|----------------------------------|-------------------------------|
|  | 2006<br>\$'000<br>(unaudited)    | 2005<br>\$'000<br>(unaudited) |
| <b>(a) Finance costs:</b>  |                                  |                               |
| Interest on bank borrowings repayable within five years  | 617                              | 451                           |
| Interest on bank borrowings repayable after five years   | 255                              | 198                           |
| Finance charges on obligations under finance leases  | 63                               | 28                            |
|  | 935                              | 677                           |
| <b>(b) Staff costs:</b>  |                                  |                               |
| Contribution to defined contribution plans   | 558                              | 451                           |
| Salaries, wages and other benefits (including directors' remuneration)   | 10,291                           | 9,467                         |
|  | 10,849                           | 9,918                         |
| <b>(c) Other items:</b>  |                                  |                               |
| Amortisation of land lease premium   | 10                               | 7                             |
| Depreciation   |                                  |                               |
| – owned fixed assets   | 1,513                            | 1,503                         |
| – assets held for use under finance leases   | 149                              | 139                           |
| Net loss on forward exchange contract  | 7                                | –                             |
| Operating lease charges in respect of properties   | 994                              | 623                           |
| Rentals receivable from investment properties less direct outgoings of \$45,000 (six months ended 30 September 2005:\$108,000) | (825)                            | (757)                         |
| Cost of inventories  | 66,451                           | 50,244                        |
|  | 66,451                           | 50,244                        |

## 5. Income tax

|  | Six months ended<br>30 September |                               |
|--|----------------------------------|-------------------------------|
|  | 2006<br>\$'000<br>(unaudited)    | 2005<br>\$'000<br>(unaudited) |
| <b>Current tax – Hong Kong Profits Tax</b> |                                  |                               |
| Tax for the period                         | 355                              | –                             |
| Over-provision in respect of prior years   | –                                | (30)                          |
|  | 355                              | (30)                          |
| <b>Current tax – PRC</b>                   | 45                               | 43                            |
| <b>Deferred tax</b>                        | (47)                             | (8)                           |
|  | 353                              | 5                             |

The provision for Hong Kong Profits Tax for the period ended 30 September 2006 is calculated at 17.5%. PRC taxation is charged at the appropriate current rate of taxation ruling in the PRC.

## 6. Interim dividend

The directors do not recommend any interim dividend for the six months ended 30 September 2006 (2005: Nil).

## 7. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$2,489,000 (six months ended 30 September 2005: \$1,948,000) and the weighted average number of 280,000,000 ordinary shares (six months ended 30 September 2005: 280,000,000 ordinary shares) in issue during the period.

The diluted earnings per share is not presented as all the potential ordinary shares are anti-dilutive for the six months ended 30 September 2005. There were no potential dilutive ordinary shares in issues during the six months ended 30 September 2006.

## 8. Movement in property, plant and equipment

During the six months ended 30 September 2006, the Group acquired items of plant and equipment with a cost of \$2,079,000 (six months ended 30 September 2005: \$1,385,000). Items of property, plant and equipment with a net book value of \$759,000 were disposed of during the six months ended 30 September 2006 (six months ended 30 September 2005: \$2,580,000), resulting in a gain on disposal of \$206,000 (six months ended 30 September 2005: \$388,000).

## 9. Trade and other receivables

|   | <b>30 September<br/>2006<br/>\$'000<br/>(unaudited)</b> | 31 March<br>2006<br>\$'000<br>(audited) |
|---|---|---|
| Trade and bills receivables                 | <b>28,982</b>   | 34,285                                  |
| Retentions receivable                       | <b>7,603</b>  | 6,411                                   |
| Prepayments, deposits and other receivables | <b>21,917</b>   | 18,279                                  |
| Amount due from a related company           | <b>272</b>  | 256                                     |
| Amount due from a jointly controlled entity | <b>976</b>  | 409                                     |
|   | <b>59,750</b>   | 59,640                                  |

All of the trade and other receivables (including amounts due from related company and the jointly controlled entity), apart from certain retentions receivable are expected to be recovered within one year.

## 9. Trade and other receivables (Continued)

Included in trade and other receivables are trade and bills receivables (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

|   | <b>30 September<br/>2006<br/>\$'000<br/>(unaudited)</b> | 31 March<br>2006<br>\$'000<br>(audited) |
|---|---|---|
| Current   | <b>19,387</b>   | 21,965                                  |
| 1 to 3 months overdue   | <b>5,686</b>  | 8,866                                   |
| More than 3 months overdue but<br>less than 12 months overdue | <b>3,394</b>  | 1,969                                   |
| More than 12 months overdue                                   | <b>515</b>  | 1,485                                   |
|   | <b>28,982</b>   | 34,285                                  |

Retentions receivable are amounts which are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts.

## 10. Cash and cash equivalents

|   | <b>30 September<br/>2006<br/>\$'000<br/>(unaudited)</b> | 31 March<br>2006<br>\$'000<br>(audited) |
|---|---|---|
| Deposits with banks                                     | <b>47,444</b>   | 64,548                                  |
| Cash at bank and in hand                                | <b>14,166</b>   | 20,903                                  |
| Cash and cash equivalents in the balance sheet          | <b>61,610</b>   | 85,451                                  |
| Bank overdrafts   | <b>(193)</b>  | (122)                                   |
| Cash and cash equivalents in the<br>cash flow statement | <b>61,417</b>   | 85,329                                  |

## 11. Trade and other payables

|                                 | <b>30 September<br/>2006<br/>\$'000<br/>(unaudited)</b> | 31 March<br>2006<br>\$'000<br>(audited) |
|---------------------------------|---|---|
| Trade and bills payable         | <b>36,626</b>   | 58,413                                  |
| Sales deposits received         | <b>22,080</b>   | 24,403                                  |
| Other payables and accruals     | <b>8,301</b>  | 4,013                                   |
| Amount due to a related company | <b>328</b>  | 328                                     |
|                                 | <b>67,335</b>   | <b>87,157</b>                           |

All trade and other payables are expected to be settled within one year. Included in trade and other payables are trade and bills payables with the following ageing analysis as of the balance sheet date:

|  | <b>30 September<br/>2006<br/>\$'000<br/>(unaudited)</b> | 31 March<br>2006<br>\$'000<br>(audited) |
|--|---|---|
| Due within 1 month or on demand        | <b>18,954</b>   | 18,729                                  |
| Due after 1 month but within 3 months  | <b>3,497</b>  | 12,453                                  |
| Due after 3 months but within 6 months | –   | 6,601                                   |
| Due after 6 months but within 1 year   | <b>8,297</b>  | 8,155                                   |
|  | <b>30,748</b>   | 45,938                                  |
| Bills payable                          | <b>5,878</b>  | 12,475                                  |
|  | <b>36,626</b>   | <b>58,413</b>                           |



## 12. Share capital

|                                  | 30 September<br>2006                                      |   | 31 March<br>2006  |   |
|----------------------------------|---|---|---|---|
|                                  | Number<br>of shares<br>( <sup>'000</sup> )<br>(unaudited) | Amount<br>\$ <sup>'000</sup><br>(unaudited) | Number<br>of shares<br>( <sup>'000</sup> )<br>(audited) | Amount<br>\$ <sup>'000</sup><br>(audited) |
| <b>Authorised:</b>               |   |   |   |   |
| Ordinary shares of<br>\$0.1 each | 2,000,000   | 200,000                                     | 2,000,000   | 200,000                                   |
| <b>Issued and fully paid:</b>    |   |   |   |   |
| Ordinary shares of<br>\$0.1 each | 280,000   | 28,000                                      | 280,000   | 28,000                                    |

## 13. Reserves

|  | (Unaudited)             |                           |                               |                            |  |   |                         |                             |                 |                             |                        |
|--|-------------------------|---------------------------|-------------------------------|----------------------------|--|---|-------------------------|-----------------------------|-----------------|-----------------------------|------------------------|
|  | Share premium<br>\$'000 | Capital reserve<br>\$'000 | Contributed surplus<br>\$'000 | Exchange reserve<br>\$'000 | Revaluation reserve - land and buildings<br>\$'000 | Revaluation reserve - investment properties<br>\$'000 | Other reserve<br>\$'000 | Retained earnings<br>\$'000 | Total<br>\$'000 | Minority interest<br>\$'000 | Total equity<br>\$'000 |
| As at 1 April 2006   | 3,728                   | (4,665)                   | (180)                         | 111                        | 4,953  | -   | 231                     | 75,452                      | 79,630          | 767                         | 80,397                 |
| Dividends approved in respect of previous year                               | -                       | -                         | -                             | -                          | -  | -   | -                       | (2,800)                     | (2,800)         | -                           | (2,800)                |
| Exchange difference on translation of the financial statements of subsidiary | -                       | -                         | -                             | (39)                       | -  | -   | -                       | -                           | (39)            | -                           | (39)                   |
| Profit for the period  | -                       | -                         | -                             | -                          | -  | -   | -                       | 2,489                       | 2,489           | 504                         | 2,993                  |
| As at 30 September 2006  | <u>3,728</u>            | <u>(4,665)</u>            | <u>(180)</u>                  | <u>72</u>                  | <u>4,953</u>                                       | <u>-</u>  | <u>231</u>              | <u>75,141</u>               | <u>79,280</u>   | <u>1,271</u>                | <u>80,551</u>          |

|  | (Unaudited)             |                           |                               |                            |  |   |                         |                             |                 |                             |                        |
|--|-------------------------|---------------------------|-------------------------------|----------------------------|--|---|-------------------------|-----------------------------|-----------------|-----------------------------|------------------------|
|  | Share premium<br>\$'000 | Capital reserve<br>\$'000 | Contributed surplus<br>\$'000 | Exchange reserve<br>\$'000 | Revaluation reserve - land and buildings<br>\$'000 | Revaluation reserve - investment properties<br>\$'000 | Other reserve<br>\$'000 | Retained earnings<br>\$'000 | Total<br>\$'000 | Minority interest<br>\$'000 | Total equity<br>\$'000 |
| As at 1 April 2005   |                         |                           |                               |                            |  |   |                         |                             |                 |                             |                        |
| -As previously reported  | 3,728                   | (4,665)                   | (180)                         | 65                         | 4,734  | 1,881   | 125                     | 68,561                      | 74,249          | 682                         | 74,931                 |
| -Prior period adjustment in respect of HKAS 40                               | -                       | -                         | -                             | -                          | -  | (1,881)   | -                       | 1,552                       | (329)           | -                           | (329)                  |
| -As restated, before opening balance adjustments                             | 3,728                   | (4,665)                   | (180)                         | 65                         | 4,734  | -   | 125                     | 70,113                      | 73,920          | 682                         | 74,602                 |
| -HKAS 39   | -                       | -                         | -                             | -                          | -  | -   | -                       | (326)                       | (326)           | -                           | (326)                  |
| -As restated, after opening adjustments                                      | 3,728                   | (4,665)                   | (180)                         | 65                         | 4,734  | -   | 125                     | 69,787                      | 73,594          | 682                         | 74,276                 |
| Transfer to retained profits on disposal of a leasehold property             | -                       | -                         | -                             | -                          | (75)   | -   | -                       | 75                          | -               | -                           | -                      |
| Exchange difference on translation of the financial statements of subsidiary | -                       | -                         | -                             | 46                         | -  | -   | -                       | -                           | 46              | -                           | 46                     |
| Dividends approved in respect of previous year                               | -                       | -                         | -                             | -                          | -  | -   | -                       | (2,800)                     | (2,800)         | -                           | (2,800)                |
| Profit for the period  | -                       | -                         | -                             | -                          | -  | -   | -                       | 1,948                       | 1,948           | 67                          | 2,015                  |
| As at 30 September 2005  | <u>3,728</u>            | <u>(4,665)</u>            | <u>(180)</u>                  | <u>111</u>                 | <u>4,659</u>                                       | <u>-</u>  | <u>125</u>              | <u>69,010</u>               | <u>72,788</u>   | <u>749</u>                  | <u>73,537</u>          |

## 14. Operating lease commitments

### (a) As lessee

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

At 30 September 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

|                                 | 30 September<br>2006<br>\$'000<br>(unaudited) | 31 March<br>2006<br>\$'000<br>(audited) |
|---------------------------------|---|---|
| Within 1 year                   | 1,227   | 1,753                                   |
| After 1 year but within 5 years | 280   | 388                                     |
|                                 | <b>1,507</b>                                  | <b>2,141</b>                            |

### (b) As lessor

The Group leases out investment properties under operating lease. The lease typically run for an initial period of one to two years, with an option to renew the lease after that date at which time all terms are renegotiated.

At 30 September 2006, the total future minimum lease receipts under non-cancellable operating leases are as follows:

|                                 | 30 September<br>2006<br>\$'000<br>(unaudited) | 31 March<br>2006<br>\$'000<br>(audited) |
|---------------------------------|---|---|
| Within 1 year                   | 1,719   | 1,704                                   |
| After 1 year but within 5 years | 731   | 1,576                                   |
|                                 | <b>2,450</b>                                  | <b>3,280</b>                            |

## 15. Capital commitments

Capital commitments outstanding at 30 September 2006 not provided for in the financial statements were as follows:

|                                 | <b>30 September<br/>2006<br/>\$'000<br/>(unaudited)</b> | 31 March<br>2006<br>\$'000<br>(audited) |
|---------------------------------|---|---|
| Contracted but not provided for | <b>11,152</b>   | <b>16,938</b>                           |

## 16. Contingent liabilities

At 30 September 2006, the Group provided guarantees in favour of third parties (representing customers and potential customers) for performing duties and quality assurance amounting to approximately \$1,955,000 (31 March 2006: Nil) and \$17,524,000 (31 March 2006: HK\$24,638,000) respectively.

## 17. Material related party transactions

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

|                      |      | <b>Six months ended<br/>30 September<br/>2006<br/>\$'000</b> | 2005<br>\$'000 |
|----------------------|------|--|----------------|
| Rental paid          | (i)  | <b>265</b>   | 187            |
| Consultancy fee paid | (ii) | <b>—</b>   | 342            |

- (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 amount represented consultancy fee paid to Inteq Srl, a minority shareholder of a subsidiary.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Results and Business Review**

During the six months ended 30 September 2006, the Group's turnover increased by 35% to HK\$93,321,000 from HK\$69,155,000 in the same period in 2005. Profit attributable to the equity holders of the Company rose to HK\$2,489,000, growing 28% compared with the same period last year. Earnings per share for the six months ended 30 September 2006 were HK0.89 cent (2005: HK0.70 cent).

During the review period, China continued to be the largest market for the Group which recorded a turnover of approximately HK\$67 million representing a 44% growth over last year. In operation for a few months, the Group's new wholly owned subsidiary in Beijing was on track. The Group's turnover and results had recorded a double digit growth. The increase in turnover was driven by the strong demand of railway machines, engines and its parts in China. In addition, the increase in the sales of seabed dredging equipment in the first half of the financial year was very encouraging.

The Group recorded a higher interest income of HK\$1,352,000 when compared to that for the same period in 2005 of HK\$503,000, as a result of efficient cash management and higher interest rates.

During the period under review, the Group's distribution costs and administrative expenses were HK\$9,000,000 and HK\$10,648,000, representing an increase of 28% and 22% respectively as compared to last corresponding period. The increase in operating expenses primarily due to the increase in staff costs from hiring new staff to support the business growth.

### **Future Outlook**

The directors of the Group remain optimistic about the outlook for the second half of the year. With the continuous growth in the infrastructure development in China, the management believes that the corresponding demand for the railway maintenance equipment will be increased. The Group will continue to differentiate itself from competition by providing after sales and engineering support to our customers. In order to diversify the Group's sources of income, the Group has devoted great effort to secure the cooperation with the potential business partners.

### **Employees and Remuneration Policy**

As at 30 September 2006, the Group employing 128 staffs in Hong Kong and the PRC. The Group remunerates its employees based on their performance, work experience and the prevailing market price. The remuneration packages include basic salary, double pay, 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 and the Remuneration Committee.

## Liquidity and Financial Resources

During the period under review, the Group continued to maintain a liquid position. As at 30 September 2006, cash and cash equivalents including pledged fixed deposits of the Group were HK\$71,997,000 (31 March 2006: HK\$94,483,000). The cash and cash equivalents consisted of about 69% in US dollars, 13% in Renminbi, 8% in Euro, 8% in Hong Kong dollars and 2% in other currencies.

As at 30 September 2006, the current ratio was 1.83 (31 March 2006:1.65), calculated on the basis of current assets of HK\$148,924,000 over current liabilities of HK\$81,515,000.

The Group's bank borrowings amounted to approximately HK\$20,643,000 (31 March 2006: HK\$24,057,000). The Group's borrowings, denominated in Hong Kong dollars, United States dollars and Euro, mainly comprise invoice financing loans and mortgage loans bearing floating interest rates. The Group's gearing ratio, based on the total borrowings to total assets of HK\$197,879,000, was 11% (31 March 2006: 11%).

## Foreign Exchange Exposure and Hedging

The Group mainly earns revenue in United States dollars, Renminbi and Hong Kong dollars while incurs the costs in Euro. As such, the Group is exposed to foreign exchange risk. The Group made use of forward contracts to hedge its foreign exchange exposure in order to reduce net exposure to currency fluctuations.

## Charge on Assets

As at 30 September 2006, certain of the Group's land and buildings and investment properties with an aggregate carrying value amounting to HK\$28,370,000 (31 March 2006: HK\$28,500,000) and bank deposits of HK\$10,387,000 (31 March 2006: HK\$9,032,000) were pledged with the banks to secure banking facilities granted to the Group. Included in pledged bank deposits are denominated in Renminbi Yuan 4,371,000 which are pledged by the Group's wholly owned subsidiary in Zhuhai, the PRC.

## Appreciation

The Directors and management would like to take this opportunity to extend their gratitude and sincere appreciation to all staff for their contributions to the Group during the period under review.

## SUPPLEMENTARY INFORMATION

### Directors' and Chief Executive's Interests In Shares and Underlying Shares

The directors and chief executive of the Company who held office at 30 September 2006 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 of 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 | 2,732,000                       | –                | 131,000,000<br>(Note) | –               | 133,732,000 |

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.

#### (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' Rights to Acquire Shares or Debentures

Save as disclosed under the headings "Directors' and chief executive's interests in shares and underlying shares" above, 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.

## SUPPLEMENTARY INFORMATION (Continued)

### 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.

At 30 September 2006, the directors and employees of the Company had no interests in options to subscribe for shares of the Company under the share option scheme of the Company.

### Substantial Shareholders

The register of interests in shares and short positions maintained under section 336 of the SFO Ordinance shows that at 30 September 2006, 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 of HK\$0.1 each |                     |                                      |   |
|--|---------------------------------|---------------------|--------------------------------------|---|
|  | Registered shareholders         | Corporate interests | Total number of ordinary shares held | Percentage of total issued shares<br>(Note) |
| Goodwell Group Invest Limited ("Goodwell")                   | 64,576,000                      | –                   | 64,576,000                           | 23.06%                                      |
| China National Aviation Corporation (Group) Limited ("CNAC") | –                               | 64,576,000          | 64,576,000                           | 23.06%                                      |
| China National Aviation Holding Company                      | –                               | 64,576,000          | 64,576,000                           | 23.06%                                      |

Note: 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 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 2006.



## **SUPPLEMENTARY INFORMATION (Continued)**

### **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.

### **Corporate Governance**

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), throughout the six months ended 30 September 2006 except for the code provisions in respect of A.2.1 and A.4.1. Deviations from code provisions A.2.1 and A.4.1 of CG Code in respect of the separate roles of chairman and chief executive officer and service term of the directors are explained in the section "Corporate Governance" on pages 16 and 18 of the 2006 Annual Report respectively.

### **Model Code for Securities Transactions**

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 September 2006.

### **Audit Committee**

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 September 2006.

By order of the Board

**Fong Kit Wah, Alan**

*Chairman*

Hong Kong, 18 December 2006