



YARDWAY GROUP LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)
(Stock Code : 0646)

 Interim Report 2007



CONTENTS

CORPORATE INFORMATION	2
INTERIM RESULTS	
Condensed Consolidated Income Statement	3
Condensed Consolidated Balance Sheet	4
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Cash Flow Statement	7
Notes on the Unaudited Interim Financial Report	8
MANAGEMENT DISCUSSION AND ANALYSIS	
Results and Business Review	21
Future Outlook	21
Employees and Remuneration Policy	22
Liquidity and Financial Resources	22
Foreign Exchange Exposure and Hedging	23
Charge on Assets	23
ADDITIONAL INFORMATION	
Directors' and Chief Executive's Interests in Shares and Underlying Shares	24
Directors' Rights to Acquire Shares or Debentures	26
Share Option Scheme	26
Substantial Shareholders	30
Purchase, Redemption or Sale of the Company's Listed Shares	32
Corporate Governance	32
Model Code for Securities Transactions	32
Audit Committee	32

CORPORATE INFORMATION

Directors

Executive Directors

Mr. Li Song Xiao (*Chairman*)

Mr. Yuan Kun

Mr. Lu Zhao Qun

Ms. Song Xuan

Non-Executive Directors

Mr. Yin Jie

Independent Non-Executive Directors

Mr. Gao Ling

Mr. Cui Yong

Mr. Zhang Qing Lin

Company Secretary

Ms. Chan Yim Kum

Audit Committee, Remuneration Committee and Nomination Committee

Mr. Gao Ling (*Chairman*)

Mr. Cui Yong

Mr. Zhang Qing Lin

Principal Share Registrar and Transfer Office

Bank of Butterfield International
(Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 705

Grand Cayman

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Standard Limited

26th Floor

Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

Legal Advisers

Richards Butler

Keith Lam Lau & Chan

Conyers Dill & Pearman

Registered Office

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Head Office and Principal Place of Business

Unit 1605A

16th Floor, Office Tower

Convention Plaza

No. 1 Harbour Road

Wanchai

Hong Kong

Tel: (852) 2544 8000

Fax: (852) 2868 3639

Website: <http://www.yardway.com.hk>

Listing Information

Hong Kong Stock Exchange

Stock Code: 646

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited

DBS Bank (Hong Kong) Limited

Bank of China (Hong Kong) Limited

Auditors

CCIF CPA Limited



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 2007 together with the comparative figures for the corresponding period in 2006. The interim results for the six months ended 30 September 2007 have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2007

(Expressed in Hong Kong dollars)

		Six months ended	
		30 September	
		2007	2006
		\$'000	\$'000
	Notes	(unaudited)	(unaudited)
Turnover	2	156,693	93,321
Cost of sales/services		(126,344)	(71,229)
Gross profit		30,349	22,092
Other revenue	3	1,560	2,474
Other net income/(loss)	3	1,325	(36)
Distribution costs		(11,526)	(9,000)
Administrative expenses		(15,315)	(11,249)
Profit from operations		6,393	4,281
Finance costs	4a	(1,350)	(935)
Profit before taxation	4	5,043	3,346
Income tax	5	(51)	(353)
Profit for the period		4,992	2,993
Attributable to:			
Equity holders of the Company		5,114	2,489
Minority interests		(122)	504
Profit for the period		4,992	2,993
Earnings per share	7a		
Basic		1.81 cents	0.89 cent
Diluted		1.77 cents	N/A

The notes on pages 8 to 20 form part of this interim financial report.

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2007

(Expressed in Hong Kong dollars)

	Note	At 30 September 2007 \$'000 (unaudited)	At 31 March 2007 \$'000 (audited)
Non-current assets			
Fixed assets			
– Investment properties		22,600	22,600
– Other property, plant and equipment		39,676	38,773
– Interest in leasehold land held for own use under operating leases		1,017	1,018
		<u>63,293</u>	62,391
Deferred tax assets		237	237
		<u>63,530</u>	62,628
Current assets			
Trading securities-listed in Hong Kong		158	542
Inventories		23,221	21,971
Trade and other receivables	9	137,133	82,411
Current taxation recoverable		1,974	1,942
Pledged bank deposits		7,841	10,309
Cash and cash equivalents	10	35,590	45,158
		<u>205,917</u>	162,333
Current liabilities			
Trade and other payables	11	118,910	93,034
Bank loans and overdrafts		30,179	17,008
Obligations under finance leases		396	312
Current taxation		61	192
Provision for warranty		145	117
		<u>149,691</u>	110,663
Net current assets		56,226	51,670
Total assets less current liabilities		119,756	114,298

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

At 30 September 2007

(Expressed in Hong Kong dollars)

	At 30 September 2007 \$'000 (unaudited)	At 31 March 2007 \$'000 (audited)
Non-current liabilities		
Bank loans	6,551	6,969
Obligations under finance leases	660	267
Deferred tax liabilities	471	471
	<u>7,682</u>	<u>7,707</u>
NET ASSETS	<u>112,074</u>	<u>106,591</u>
CAPITAL AND RESERVES		
Share capital	13 28,199	28,085
Reserves	14 83,098	77,607
	<u>111,297</u>	<u>105,692</u>
Total equity attributable to equity holders of the Company	111,297	105,692
Minority interests	<u>777</u>	<u>899</u>
TOTAL EQUITY	<u>112,074</u>	<u>106,591</u>

The notes on pages 8 to 20 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2007

(Expressed in Hong Kong dollars)

		Six months ended	
		30 September	
		2007	2006
		\$'000	\$'000
		(unaudited)	(unaudited)
	<i>Note</i>		
Total equity at 1 April:	<i>13, 14</i>	106,591	108,397
Net income for the period recognised directly in equity:			
Exchange differences on translation of:			
– financial statements of overseas subsidiary		252	(39)
		252	(39)
Net profit for the period:	<i>14</i>		
Attributable to equity shareholders of the Company		5,114	2,489
Minority interests		(122)	504
		4,992	2,993
Total recognised income and expense for the period		5,244	2,954
Dividends declared		–	(2,800)
Movement in equity arising from capital transactions:			
Shares issued under share option scheme		239	–
Total equity at 30 September		112,074	108,551

The notes on pages 8 to 20 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 September 2007**(Expressed in Hong Kong dollars)*

	Note	Six months ended	
		2007	2006
		\$'000	\$'000
		(Unaudited)	(Unaudited)
Cash used in operations		(12,113)	(18,478)
Tax paid		(214)	(84)
Net cash from operating activities		(12,327)	(18,562)
Net cash generated from/(used in) investing activities		104	(1,304)
Net cash generated from/(used in) financing activities		1,019	(4,007)
Decrease in cash and cash equivalents		(11,204)	(23,873)
Cash and cash equivalents at beginning of period	10	43,769	85,329
Effect on foreign exchange rate changes		179	(39)
Cash and cash equivalents at end of period	10	32,744	61,417

The notes on pages 8 to 20 form part of this interim financial report.



NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

1. Basis of presentation and accounting policies

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").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements. The HKICPA has issued certain new standards, interpretations and amendments to existing standards (collectively "New Standards") which are effective for accounting periods beginning on or after 1 January 2007. The Group has assessed the impact of those New Standards and concluded that the adoption of these New Standards in the current period did not have any material impact on the unaudited condensed consolidated financial information.

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 2007 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 2007 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 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 19 July 2007.

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		Consolidated	
	2007 \$'000 (unaudited)	2006 \$'000 (unaudited)	2007 \$'000 (unaudited)	2006 \$'000 (unaudited)	2007 \$'000 (unaudited)	2006 \$'000 (unaudited)	2007 \$'000 (unaudited)	2006 \$'000 (unaudited)
Revenue from external customers	123,142	70,859	33,551	22,462	-	-	156,693	93,321
Other revenue from external customers	-	-	-	-	1,560	2,474	1,560	2,474
Total	123,142	70,859	33,551	22,462	1,560	2,474	158,253	95,795
Segment results	8,160	6,110	1,064	(481)			9,224	5,629
Unallocated operating income and expenses							(2,831)	(1,348)
Profit from operations							6,393	4,281
Finance costs							(1,350)	(935)
Taxation							(51)	(353)
Profit after tax							4,992	2,993
Depreciation for the period	1,091	384	124	108	955	1,170		
Amortisation of lease prepayment	-	-	-	-	11	10		
Segment assets	202,339	122,473	19,577	32,651			221,916	155,124
Unallocated assets							47,531	42,755
Total assets							269,447	197,879
Segment liabilities	130,659	66,428	11,068	11,651			141,727	78,079
Unallocated liabilities							15,646	11,249
Total liabilities							157,373	89,328
Capital expenditure incurred during the period	1,420	1,782	98	90	2,343	207		

2. Segment reporting (Continued)

Geographical segments

The Group's business is managed on a worldwide basis, but participates in four 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		Other parts of the PRC		The United States of America		Europe		Others	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue from external customers	12,476	13,801	133,113	67,039	-	1,287	10,623	9,143	481	2,051
Segment assets	163,892	151,648	105,555	44,390	-	-	-	-	-	1,841
Capital expenditure incurred during the period	2,084	2,045	1,777	34	-	-	-	-	-	-

3. Other revenue and other net income/(loss)

	Six months ended	
	30 September	
	2007	2006
	\$'000	\$'000
	(unaudited)	(unaudited)
Other revenue		
Gross rental income from investment properties	857	870
Interest income	690	1,352
Royalty income	-	179
Dividend income from listed securities	13	18
Others	-	55
	<u>1,560</u>	<u>2,474</u>
Other net income/(loss)		
Net exchange gain/(loss)	1,068	(279)
Net gain on sale of fixed assets	9	206
Net gain on sale of trading securities	223	61
Net unrealised gain/(loss) on trading securities carried at fair value	25	(24)
	<u>1,325</u>	<u>(36)</u>



4. Profit before taxation

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

	Six months ended	
	30 September	
	2007	2006
	\$'000	\$'000
(a) Finance costs:		
Interest on bank borrowings repayable within five years	1,087	617
Interest on bank borrowings repayable after five years	214	255
Finance charges on obligations under finance leases	49	63
	<u>1,350</u>	<u>935</u>
(b) Staff costs:		
Contribution to defined contribution plans	694	558
Salaries, wages and other benefits (including directors' remuneration)	11,386	10,291
	<u>12,080</u>	<u>10,849</u>
(c) Other items:		
Amortisation of land lease premium	11	10
Depreciation		
– owned fixed assets	2,140	1,513
– assets held for use under finance leases	30	149
Net loss on forward exchange contract	–	7
Operating lease charges in respect of properties	1,096	994
Rentals receivable from investment properties less direct outgoings of \$22,000 (six months ended 30 September 2006:\$45,000)	(835)	(825)
Cost inventories	<u>121,800</u>	<u>66,451</u>

5. Income tax

	Six months ended	
	30 September	
	2007	2006
	\$'000	\$'000
Current tax-Hong Kong Profits Tax		
Tax for the period	–	355
Current tax-PRC	51	45
Deferred tax	–	(47)
	<u>51</u>	<u>353</u>

The provision for Hong Kong Profits Tax for the period ended 30 September 2007 is calculated at 17.5%. 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 profits for the period. 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 2007 (2006: Nil).

7. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$5,114,000 (six months ended 30 September 2006: \$2,489,000) and the weighted average number of 281,912,000 ordinary shares (six months ended 30 September 2006: 280,000,000 ordinary shares) in issue during the period.

(b) *Diluted earnings per share*

The calculation of the diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$5,114,000 and the weighted average number of 289,033,000 ordinary shares after adjusting for the effect of share options. 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 2007, the Group acquired items of plant and equipment with a cost of \$3,861,000 (six months ended 30 September 2006: \$2,079,000). Items of property, plant and equipment with a net book value of \$851,000 were disposed of during the six months ended 30 September 2007 (six months ended 30 September 2006: \$759,000), resulting in a gain on disposal of \$9,000 (six months ended 30 September 2006: \$206,000).

9. Trade and other receivables

	30 September	31 March
	2007	2007
	\$'000	\$'000
	(unaudited)	(audited)
Trade and bills receivables	95,200	37,547
Retentions receivable	13,956	13,793
Prepayments, deposits and other receivables	25,585	28,703
Amount due from a related company	276	274
Amount due from jointly controlled entities	2,116	2,094
	<u>137,133</u>	<u>82,411</u>

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

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

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

	30 September	31 March
	2007	2007
	\$'000	\$'000
	(unaudited)	(audited)
Current	67,037	25,660
1 to 3 months overdue	25,562	8,563
More than 3 months overdue but less than 12 months overdue	1,880	2,836
More than 12 months overdue	721	488
	<u>95,200</u>	<u>37,547</u>

Normally, the Group grants 30-90 days credit terms to its customers.

10. Cash and cash equivalents

	30 September	31 March
	2007	2007
	\$'000	\$'000
	(unaudited)	(audited)
Deposits with banks	18,084	27,042
Cash at bank and in hand	17,506	18,116
Cash and cash equivalents in the balance sheet	35,590	45,158
Bank overdrafts	(2,846)	(1,389)
Cash and cash equivalents in the cash flow statement	<u>32,744</u>	<u>43,769</u>



11. Trade and other payables

	30 September	31 March
	2007	2007
	\$'000	\$'000
	(unaudited)	(audited)
Trade and bills payable	84,331	60,859
Sales deposits received	21,373	23,252
Other payables and accruals	11,878	7,595
Amount due to related companies	1,328	1,328
	<hr/>	<hr/>
	118,910	93,034
	<hr/> <hr/>	<hr/> <hr/>

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.

	30 September	31 March
	2007	2007
	\$'000	\$'000
	(unaudited)	(audited)
Due within 1 month or on demand	35,693	33,689
Due after 1 month but within 3 months	8,502	10,876
Due after 3 months but within 6 months	28,401	5,332
Due after 6 months but within 1 year	11,501	8,280
	<hr/>	<hr/>
	84,097	58,177
Bills payable	234	2,682
	<hr/>	<hr/>
	84,331	60,859
	<hr/> <hr/>	<hr/> <hr/>

12. Interest in jointly controlled entities

Included in the condensed consolidated financial statements are the following items that represent the Group's interest in the assets and liabilities, revenues and expenses of the jointly controlled entities:

	30 September	31 March
	2007	2007
	\$'000	\$'000
Non-current assets	207	177
Current assets	5,501	1,819
Current liabilities	(7,116)	(3,235)
	<u> </u>	<u> </u>
Net liabilities	(1,408)	(1,239)
	<u> </u>	<u> </u>
	Six months ended	
	30 September	
	2007	2006
	\$'000	\$'000
Turnover	3,459	–
Cost of sales	(2,926)	–
	<u> </u>	<u> </u>
	533	–
Other revenue	22	–
Other net income	8	–
	<u> </u>	<u> </u>
	563	–
Distribution costs	(299)	–
Administrative expenses	(387)	(601)
	<u> </u>	<u> </u>
Loss from operations	(123)	(601)
Finance costs	(50)	–
	<u> </u>	<u> </u>
Loss for the period	(173)	(601)
	<u> </u>	<u> </u>

13. Share capital

	Number of shares (('000) (unaudited)	Amount \$'000 (unaudited)
Authorised:		
Ordinary shares of \$0.1 each	<u>2,000,000</u>	<u>200,000</u>
Ordinary shares, issued and fully paid:		
At 1 April 2007	280,850	28,085
Shares issued under share option scheme	<u>1,136</u>	<u>114</u>
At 30 September 2007	<u>281,986</u>	<u>28,199</u>

14. Reserves

(unaudited)

	Share premium	Capital reserve	Contributed surplus	Exchange reserve	Revaluation reserve – land and buildings	Other reserve	Retained earnings	Total	Minority interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 April 2007	3,873	(4,389)	(180)	789	7,366	320	69,828	77,607	899	78,506
Shares issued under share option scheme	193	(68)	-	-	-	-	-	125	-	125
Exchange difference on translation of the financial statements of subsidiary	-	-	-	252	-	-	-	252	-	252
Profit for the period	-	-	-	-	-	-	5,114	5,114	(122)	4,992
As at 30 September 2007	<u>4,066</u>	<u>(4,457)</u>	<u>(180)</u>	<u>1,041</u>	<u>7,366</u>	<u>320</u>	<u>74,942</u>	<u>83,098</u>	<u>777</u>	<u>83,875</u>

(unaudited)

	Share premium	Capital reserve	Contributed surplus	Exchange reserve	Revaluation reserve – land and buildings	Other reserve	Retained earnings	Total	Minority interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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>231</u>	<u>75,141</u>	<u>79,280</u>	<u>1,271</u>	<u>80,551</u>



15. 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 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 September 2007 \$'000 (unaudited)	31 March 2007 \$'000 (audited)
Within 1 year	1,486	1,586
After 1 year but within 5 years	137	–
	<u>1,623</u>	<u>1,586</u>

(b) As lessor

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

At 30 September 2007, the total future minimum lease receipts under non-cancellable operating leases are as follows:

	30 September 2007 \$'000 (unaudited)	31 March 2007 \$'000 (audited)
Within 1 year	835	1,780
After 1 year but within 5 years	–	837
	<u>835</u>	<u>2,617</u>



16. Capital commitments

Capital commitments outstanding at 30 September 2007 not provided for in the financial statements were as follows:

	30 September 2007 \$'000 (unaudited)	31 March 2007 \$'000 (audited)
Contracted but not provided for	<u>6,733</u>	<u>7,214</u>

In addition to the above, the Group's proportionate share of the jointly controlled entity's capital contribution amounted to \$2,125,000 at 30 September 2007.

17. Contingent liabilities

At 30 September 2007, the Group has undertaken to guarantee certain banking facilities granted to certain subsidiaries to the extent of \$238,000,000 (31 March 2007: \$238,000,000).

As at the balance sheet, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued is the facilities drawn down by the subsidiaries totaling \$63,497,000 (31 March 2007: \$46,372,000)

18. Material related party transactions

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

		Six months ended	
		30 September	
	<i>Note</i>	2007	2006
		\$'000	\$'000
Rental paid	<i>(i)</i>	–	265
Staff costs	<i>(ii)</i>	<u>198</u>	<u>189</u>

(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 represents staff costs paid to an individual minority shareholder of a non-wholly owned subsidiary.



MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

The Group's turnover for the six months ended 30 September 2007 increased by 68% over the corresponding period of the previous financial year to HK\$156,693,000. The profit attributable to the equity holders of the Company was HK\$5,114,000, growing 106% compared with the same period last year. Earnings per share for the six months ended 30 September 2007 were HK1.81 cents (2006: HK0.89 cent).

For the period under review, the revenue generated from railway maintenance equipment amounted to HK\$111,875,000, contributing approximately 71% of the Group's total revenue. The growth in revenue was mainly driven by some sizeable contracts for the railway maintenance equipment. We continued to reap the benefit of the prospective investment in the PRC railway network. China continued to be the largest market for the Group. Revenue from this market accounted for 85% of the Group's revenue for the first half of the financial year.

During the period under review, the Group's distribution costs and administrative expenses for the six months ended 30 September 2007 were HK\$11,526,000 and HK\$15,315,000, representing an increase of 28% and 36% respectively as compared to last corresponding period. The increase in distribution costs was mainly due to the increase in staff costs, carriage outwards, delegation expenses and trip expenses. The increase in administrative expenses was primarily due to the increase in staff costs, legal and professional fees, depreciation and printing expenses.

Future Outlook

On 23 August 2007, upon the completion of the acquisition of approximately 47.4% of the issued share capital of the Company, Happy City Holdings Limited became the new controlling shareholder of the Company. It is intended that the Group's existing principal activities will be continued. Now the Group has a few sizeable projects in progress. It is expected that most of them will be completed in the second half of the financial year.

Going forward, it is the Group's strategy to focus on the profitable core business and restructure its existing business in order to fit the Group's development. In addition, The Group will also explore suitable opportunities in order to maximise our shareholders' value.



EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2007, the Group employed 132 staff 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

Liquidity

As at 30 September 2007, cash and cash equivalents including pledged fixed deposits of the Group were HK\$43,431,000 (31 March 2007: HK\$55,467,000). The cash and cash equivalents consisted of about 59% in Hong Kong dollars, 25% in Renminbi, 8% in US dollars and 8% in other currencies.

As at 30 September 2007, the current ratio was 1.38 (31 March 2007: 1.47), calculated on the basis of current assets of HK\$205,917,000 (31 March 2007: HK\$162,333,000) over current liabilities of HK\$149,691,000 (31 March 2007: HK\$110,663,000).

The Group's bank borrowings amounted to approximately HK\$36,730,000 (31 March 2007: HK\$23,977,000). 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\$269,447,000, was 14% (31 March 2007: 11%).



LIQUIDITY AND FINANCIAL RESOURCES (Continued)

Foreign exchange exposure and hedging

The Group mainly earns revenue in United States dollars, Renminbi and Hong Kong dollars while incurs the costs mainly 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 2007, certain of the Group's land and buildings and investment properties with an aggregate carrying value amounting to HK\$30,462,000 (31 March 2007: HK\$30,600,000) and bank deposits of HK\$7,841,000 (31 March 2007: HK\$10,309,000) were pledged with the banks to secure banking facilities granted to the Group. Included in pledged bank deposits are denominated in Renminbi Yuan 1,352,000 which are pledged by the Group's wholly owned subsidiary in Zhuhai, the PRC.

ADDITIONAL 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 2007 had the following interests in the shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as at 30 September 2007 as recorded in the register of directors' and chief executive's interests required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited:

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

Name of director	Capacity	No. of ordinary shares interested	% of total issued share capital
Li Song Xiao	Interest held by a controlled corporation	144,156,000 (note (a))	51.12
Chan Ting Kwong (note (b))	Beneficial owner	148,000	0.05
Wong Man Chung, Francis (note (b))	Beneficial owner	248,000	0.09

Notes:

- (a) These shares were held by Happy City Holdings Limited, which was wholly-owned by Li Song Xiao.
- (b) Subsequent to the interim period end, Chan Ting Kwong and Wong Man Chung, Francis resigned as directors of the Company on 11 October 2007.



ADDITIONAL INFORMATION (Continued)

Directors' and Chief Executive's Interests in Shares and Underlying Shares (continued)

(ii) Long position in the underlying shares of the Company – physically settled unlisted equity derivatives (being share options granted by the Company)

Details of the interests of directors in share options of the Company as at 30 September 2007 are set out in the paragraph headed "Share Option Scheme" below.

(iii) Long position in the issued shares of associated corporations

Name of director	Name of associated corporation	Capacity	No. and class of shares interested	% of shareholding in the same class of shares
Li Song Xiao	Happy City Holdings Limited (note (a))	Beneficial owner	1 ordinary share	100.00
Fong Kit Wah, Alan (note (b))	Yardway Limited (note (c))	Beneficial owner	5,000 non-voting deferred shares	49.50
Fong Kit Wah, Alan (note (b))	Yardway Limited (note (c))	Interest held by a controlled corporation	5,100 non-voting deferred shares (note (d))	50.50

Notes:

- (a) Happy City Holdings Limited was the Company's holding company holding 51.12% of the issued shares of the Company as at 30 September 2007.
- (b) Subsequent to the interim period end, Fong Kit Wah, Alan resigned as a director of the Company on 11 October 2007.
- (c) Yardway Limited was a wholly-owned subsidiary of the Company.
- (d) These shares were registered in the name of Yardway Holdings Limited, a corporation in which Fong Kit Wah, Alan owned 75% shareholding interest.



ADDITIONAL INFORMATION (Continued)

Directors' and Chief Executive's Interests in Shares and Underlying Shares (continued)

(iii) Long position in the issued shares of associated corporations (continued)

Save as disclosed above and disclosed under the section headed "Share Option Scheme" below, as at 30 September 2007, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code; nor had there been any grant or exercise of rights during the interim period.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the heading "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above and under the heading "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 force for 10 years from that date.



ADDITIONAL INFORMATION (Continued)

Share Option Scheme (continued)

Movements of share options under the share option scheme of the Company during the six months ended 30 September 2007 are set out below:

Name or category of participant	No. of options outstanding at the beginning of the period	No. of options granted/ lapsed/ cancelled during the period	No. of shares acquired on exercise of options during the period	No. of options outstanding at the period end	Date granted	*Period during which options are exercisable	Exercise price per share	*Market value closing price before date of exercise
Director								
Lu Zhao Qun (Note (1))	250,000	-	248,000	2,000	13-Nov-06	13-Nov-06 to 12-Nov-2011	HK\$0.21	HK\$0.51
	250,000	-	-	250,000	13-Nov-06	13-Nov-07 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-08 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-09 to 12-Nov-2011	HK\$0.21	-
Fong Kit Wah, Alan (Note (2))	650,000	-	-	650,000	13-Nov-06	13-Nov-06 to 12-Nov-2011	HK\$0.21	-
	650,000	-	-	650,000	13-Nov-06	13-Nov-07 to 12-Nov-2011	HK\$0.21	-
	650,000	-	-	650,000	13-Nov-06	13-Nov-08 to 12-Nov-2011	HK\$0.21	-
	650,000	-	-	650,000	13-Nov-06	13-Nov-09 to 12-Nov-2011	HK\$0.21	-
Rourke James Grierson (Note (2))	150,000	-	148,000	2,000	13-Nov-06	13-Nov-06 to 12-Nov-2011	HK\$0.21	HK\$0.51
	250,000	-	-	250,000	13-Nov-06	13-Nov-07 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-08 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-09 to 12-Nov-2011	HK\$0.21	-
Cheung Miu Sin (Note (2))	150,000	-	148,000	2,000	13-Nov-06	13-Nov-06 to 12-Nov-2011	HK\$0.21	HK\$0.51
	250,000	-	-	250,000	13-Nov-06	13-Nov-07 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-08 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-09 to 12-Nov-2011	HK\$0.21	-

ADDITIONAL INFORMATION (Continued)
Share Option Scheme (continued)

Name or category of participant	No. of options outstanding at the beginning of the period	No. of options granted/ lapsed/ cancelled during the period	No. of shares acquired on exercise of options during the period	No. of options outstanding at the period end	Date granted	*Period during which options are exercisable	Exercise price per share	*Market value closing price before date of exercise
Director								
Fung Siu Wan, Stella (Note (2))	150,000	-	148,000	2,000	13-Nov-06	13-Nov-06 to 12-Nov-2011	HK\$0.21	HK\$0.51
	250,000	-	-	250,000	13-Nov-06	13-Nov-07 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-08 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-09 to 12-Nov-2011	HK\$0.21	-
Wong Man Chung, Francis (Note (2))	150,000	-	148,000	2,000	13-Nov-06	13-Nov-06 to 12-Nov-2011	HK\$0.21	HK\$0.51
	250,000	-	-	250,000	13-Nov-06	13-Nov-07 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-08 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-09 to 12-Nov-2011	HK\$0.21	-
Chan Ting Kwong (Note (2))	150,000	-	148,000	2,000	13-Nov-06	13-Nov-06 to 12-Nov-2011	HK\$0.21	HK\$0.51
	250,000	-	-	250,000	13-Nov-06	13-Nov-07 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-08 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-09 to 12-Nov-2011	HK\$0.21	-



ADDITIONAL INFORMATION (Continued)

Share Option Scheme (continued)

Name or category of participant	No. of options outstanding at the beginning of the period	No. of options granted/ lapsed/ cancelled during the period	No. of shares acquired on exercise of options during the period	No. of options outstanding at the period end	Date granted	*Period during which options are exercisable	Exercise price per share	*Market value closing price before date of exercise
Director								
Yin Jie	250,000	-	-	250,000	13-Nov-06	13-Nov-06 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-07 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-08 to 12-Nov-2011	HK\$0.21	-
	250,000	-	-	250,000	13-Nov-06	13-Nov-09 to 12-Nov-2011	HK\$0.21	-
Employees	412,500	-	148,000	264,500	13-Nov-06	13-Nov-06 to 12-Nov-2011	HK\$0.21	HK\$0.51
	412,500	-	-	412,500	13-Nov-06	13-Nov-07 to 12-Nov-2011	HK\$0.21	-
	412,500	-	-	412,500	13-Nov-06	13-Nov-08 to 12-Nov-2011	HK\$0.21	-
	412,500	-	-	412,500	13-Nov-06	13-Nov-09 to 12-Nov-2011	HK\$0.21	-

Notes:

- (1) Lu Zhao Qun was appointed as a director of the Company on 21 September 2007.
- (2) Subsequent to the interim period end, he/she resigned as a director of the Company on 11 October 2007.

The vesting period of the share options was from the date of grant until the commencement of the exercise period.

* *Being the weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were exercised, where applicable.*

ADDITIONAL INFORMATION (Continued)

Substantial Shareholders

As at 30 September 2007, so far as is known to the directors, save as disclosed in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above, the following persons/parties had interests in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity	No. of shares of the Company interested (long position)	% of total issued share capital
Happy City Holdings Limited <i>(note (a))</i>	Beneficial owner	144,156,000	51.12
Liu Hui <i>(note (b))</i>	Interest of spouse	144,156,000	51.12
Goodwell Group Invest Limited <i>(note (c))</i>	Beneficial owner	56,000,000	19.86
China National Aviation Corporation (Group) Limited <i>(note (c))</i>	Beneficial owner	10,252,000	
	Interest held by a controlled corporation	<u>56,000,000</u>	66,252,000 23.49
China National Aviation Holding Company <i>(note (c))</i>	Interest held by a controlled corporation	66,252,000	23.49

**ADDITIONAL INFORMATION (Continued)****Substantial Shareholders (continued)**

Notes:

- (a) The above interest held by Happy City Holdings Limited was also disclosed as the interest of Li Song Xiao in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above.
- (b) Liu Hui was deemed to be interested in 144,156,000 ordinary shares of the Company, being the interest held beneficially by her spouse, Li Song Xiao.
- (c) Goodwell Group Invest Limited was wholly owned by China National Aviation Corporation (Group) Limited, which in turn was wholly owned by China National Aviation Holding Company.

Save as disclosed above, as at 30 September 2007, so far as is known to the directors of the Company, no person (other than the directors of the Company whose interests are set out in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above) had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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 2007 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 2007 Annual Report respectively.

Model Code for Securities Transactions

The Company has adopted the Model Code in respect of directors' dealings in the Company's securities. Specific enquiry has been made of all the directors of the Company who have confirmed that they have complied with the Model Code throughout the six months ended 30 September 2007.

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 2007.

By order of the Board

Li Song Xiao

Chairman