

INTERIM REPORT 2008



YARDWAY GROUP LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

(Stock Code: 0646)

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CORPORATE INFORMATION

Directors

Executive Directors

Mr. Li Song Xiao (*Chairman*)
Mr. Yuan Kun
Mr. Lu Zhao Qun
Ms. Song Xuan
Mr. Xu Xiao Yang

Independent Non-Executive Directors

Mr. Gao Ling
Mr. Cui Yong
Mr. Zhang Qing Lin

Company Secretary

Mr. Ching Yin Kay, Mason

Qualified Accountant

Mr. Li Wang Hing, Nelson

Audit Committee

Mr. Gao Ling (*Chairman*)
Mr. Cui Yong
Mr. Zhang Qing Lin

Remuneration Committee

Mr. Cui Yong (*Chairman*)
Mr. Gao Ling
Mr. Zhang Qing Lin

Nomination Committee

Mr. Cui Yong (*Chairman*)
Mr. Gao Ling
Mr. Zhang Qing Lin

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group
(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
Mason Ching & Associates
Conyers Dill & Pearman

Registered Office

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Head Office and Principal Place of Business

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Listing Information

The Stock Exchange of Hong Kong Limited
Stock Code: 0646

Principal Bankers

DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited

Auditors

CCIF CPA Limited
20/F., Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

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 2008 together with the comparative figures for the corresponding period in 2007. The interim results for the six months ended 30 September 2008 have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

		2008	2007
		\$'000	\$'000
	<i>Note</i>	(unaudited)	(unaudited)
Turnover	2	133,772	156,693
Cost of sales/services		(100,446)	(126,344)
		<hr/> 33,326	<hr/> 30,349
Gross profit			
Other revenue	3	638	1,560
Other net income	3	923	1,325
Distribution costs		(11,761)	(11,526)
Administrative expenses		(18,382)	(15,315)
		<hr/> 4,744	<hr/> 6,393
Profit from operations			
Finance costs	4a	(661)	(1,350)
		<hr/> 4,083	<hr/> 5,043
Profit before taxation	4		
Income tax	5	(42)	(51)
		<hr/> 4,041	<hr/> 4,992
Profit for the period			
Attributable to:			
Equity holders of the Company		4,041	5,114
Minority interests		–	(122)
		<hr/> 4,041	<hr/> 4,992
Profit for the period			
Earnings per share	7a		
Basic		1.40 cents	1.81 cents
Diluted		N/A	1.77 cents

The notes on pages 9 to 22 form part of this interim financial report.

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2008

(Expressed in Hong Kong dollars)

	At 30 September 2008 \$'000 (unaudited)	At 31 March 2008 \$'000 (audited)
<i>Note</i>		
Non-current assets		
Interest in leasehold land held for own use		
under operating leases	1,102	1,094
Property, plant and equipment	47,171	47,644
Investment properties	6,760	6,760
Deferred tax assets	237	237
	55,270	55,735
	-----	-----
Current assets		
Trading securities-listed in Hong Kong	–	41
Inventories	13,665	28,121
Trade and other receivables	9 94,829	127,285
Current taxation recoverable	107	1,926
Pledged bank deposits	11,776	8,348
Cash and cash equivalents	10 68,177	62,731
	188,554	228,452
	-----	-----
Current liabilities		
Trade and other payables	11 96,704	141,494
Bank loans and overdrafts	15,651	12,965
Obligations under finance leases	396	396
Current taxation	485	1,005
	113,236	155,860
	-----	-----
Net current assets	75,318	72,592
	-----	-----

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

At 30 September 2008

(Expressed in Hong Kong dollars)

	At 30 September 2008 \$'000 (unaudited)	At 31 March 2008 \$'000 (audited)
Total assets less current liabilities	130,588	128,327
Non-current liabilities		
Bank loans and overdrafts	4,050	5,328
Obligations under finance leases	264	462
Deferred tax liabilities	857	849
	<u>5,171</u>	<u>6,639</u>
NET ASSETS	<u>125,417</u>	<u>121,688</u>
CAPITAL AND RESERVES		
Share capital	13 28,825	28,825
Reserves	14 96,592	92,278
	<u>125,417</u>	<u>121,103</u>
Total equity attributable to equity holders of the Company	125,417	121,103
Minority interests	–	585
TOTAL EQUITY	<u>125,417</u>	<u>121,688</u>

The notes on pages 9 to 22 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

	Note	Six months ended	
		2008	2007
		\$'000	\$'000
		(unaudited)	(unaudited)
Total equity as at 1 April 2008:	13, 14	121,688	106,591
Net income for the period recognised directly in equity:			
Exchange differences on translation of:			
- financial statements of overseas subsidiary		273	252
Minority interests-acquisition of additional interests in subsidiary		(585)	-
		<u>(312)</u>	<u>252</u>
Net profit for the period:	14		
Attributable to equity holders of the Company		4,041	5,114
Minority interests		-	(122)
		<u>4,041</u>	<u>4,992</u>
Total recognised income and expense for the period		<u>3,729</u>	<u>5,244</u>
Movement in equity arising from capital transactions:			
Shares issued under share option scheme		-	239
Total equity as at 30 September 2008		<u>125,417</u>	<u>112,074</u>

The notes on pages 9 to 22 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2008

(Expressed in Hong Kong dollars)

	Note	Six months ended	
		2008	2007
		\$'000	\$'000
		(unaudited)	(unaudited)
Cash generated from/(used in) operations		12,289	(12,113)
Tax refund/(paid)		1,257	(214)
Net cash from/(used in) operating activities		13,546	(12,327)
Net cash (used in)/generated from investing activities		(4,763)	104
Net cash (used in)/generated from financing activities		(2,137)	1,019
Increase/(decrease) in cash and cash equivalents		6,646	(11,204)
Cash and cash equivalents at beginning of period	10	60,430	43,769
Effect on foreign exchange rate changes		54	179
Cash and cash equivalents at end of period	10	67,130	32,744

The notes on pages 9 to 22 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements (“interim financial statements”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Exchange”) and 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 statements have been prepared under the historical cost convention except for certain properties, plant and equipment and financial instruments, which are measured at revalued amounts or fair values, as appropriate. The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2008.

During this period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are effective for accounting periods commencing on or after 1 April 2008. The adoption of these new HKFRSs has no material effect on the results or financial position of the Group for the current or prior accounting periods.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
HKAS 39 (Amendment)	Eligible Hedged Items ³

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 8	Operating Segments ²
HK(IFRIC) – Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate ²
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation ⁵

¹ Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009

² Effective for annual periods beginning on or after 1st January, 2009

³ Effective for annual periods beginning on or after 1st July, 2009

⁴ Effective for annual periods beginning on or after 1st July, 2008

⁵ Effective for annual periods beginning on or after 1st October, 2008

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.

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	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue from external customers	88,266	123,142	45,506	33,551	-	-	133,772	156,693
Other revenue from external customers	-	-	-	-	241	870	241	870
Total	88,266	123,142	45,506	33,551	241	870	134,013	157,563
Segment results	5,934	8,160	5,027	1,064			10,961	9,224
Unallocated operating income and expenses							(6,217)	(2,831)
Profit from operations							4,744	6,393
Finance costs							(661)	(1,350)
Taxation							(42)	(51)
Profit after tax							4,041	4,992
Depreciation and amortisation for the period	685	1,091	235	124	862	966		
Impairment losses on trade receivables	1,078	-	-	-	-	-		

2. SEGMENT REPORTING (CONTINUED)

Geographical segments

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

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

	Six months ended 30 September							
	Hong Kong		Other parts of the PRC		Europe		Others	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue from external customers	30,448	12,476	92,344	133,113	10,800	10,623	180	481
Capital expenditure incurred during the period	795	2,084	488	1,777	-	-	-	-

3. OTHER REVENUE AND OTHER NET INCOME

	Six months ended 30 September	
	2008 \$'000 (unaudited)	2007 \$'000 (unaudited)
Other revenue		
Interest income from bank	397	690
Total interest income on financial assets not at fair value through profit and loss	397	690
Gross rental income from investment properties	209	857
Management fee income	31	-
Dividend income from listed securities	1	13
	638	1,560
Other net income		
Net exchange gain	707	1,068
Net gain on disposal of property, plant and equipment	207	9
Net gain on sale of trading securities	9	223
Net unrealised gain on trading securities carried at fair value	-	25
	923	1,325

4. PROFIT BEFORE TAXATION

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

	Six months ended	
	30 September	
	2008	2007
	\$'000	\$'000
	(unaudited)	(unaudited)
(a) Finance costs:		
Interest on bank advances and bank borrowings repayable within five years	560	1,087
Interest on bank advances and bank borrowings repayable after five years	74	214
Finance charges on obligations under finance leases	27	49
	<u>661</u>	<u>1,350</u>
(b) Staff costs (including director's remuneration):		
Contribution to defined contribution retirement plans	809	694
Salaries, wages and other benefits	13,815	11,386
	<u>14,624</u>	<u>12,080</u>
(c) Other items:		
Amortisation of land lease premium	12	11
Depreciation		
– assets held for own use under finance leases	177	30
– other assets	1,593	2,140
Impairment losses on trade and other receivables	1,078	–
Impairment losses on goodwill	315	–
Net loss on forward exchange contract	60	–
Operating lease charges in respect of properties	1,287	1,096
Rentals from investment properties less direct outgoings of \$10,000 (six months ended 30 September 2007:\$22,000)	(199)	(835)
Cost of inventories	<u>93,789</u>	<u>121,800</u>

5. INCOME TAX

	Six months ended 30 September	
	2008	2007
	\$'000	\$'000
	(unaudited)	(unaudited)
Current tax-Hong Kong Profits Tax		
Tax for the period	–	–
Current tax-PRC	42	51
Deferred tax	–	–
	<u>42</u>	<u>51</u>

The provision for Hong Kong Profits Tax for the period ended 30 September 2008 is calculated at 16.5%. 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 2008 (2007: 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 \$4,041,000 (six months ended 30 September 2007: \$5,114,000) and the weighted average number of 288,248,000 ordinary shares (six months ended 30 September 2007: 281,912,000 ordinary shares) in issue during the period.

(b) Diluted earnings per share

There were no potential dilutive ordinary shares in issues during the six months ended 30 September 2008. The calculation of the diluted earnings per share for the six months ended 30 September 2007 was 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 during the period.

8. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The directors are of the opinion that the carrying value of the Group's investment properties as at 30 September 2008 is not materially different from the fair value of the investment properties. Accordingly, no valuation movement has been recognised in respect of the Group's investment properties during the period.

During the six months ended 30 September 2008, the Group acquired items of plant and equipment with a cost of \$1,283,000 (six months ended 30 September 2007: \$3,861,000). Items of property, plant and equipment with a net book value of \$197,000 were disposed of during the six months ended 30 September 2008 (six months ended 30 September 2007: \$851,000), resulting in a gain on disposal of \$207,000 (six months ended 30 September 2007: \$9,000).

9. TRADE AND OTHER RECEIVABLES

	30 September 2008 \$'000 (unaudited)	31 March 2008 \$'000 (audited)
Trade and bills receivables	70,810	90,928
Retentions receivable	11,333	16,103
Other receivables	1,420	1,144
Deferred consideration	–	786
	<hr/>	<hr/>
Receivables	83,563	108,961
Derivative financial instruments:		
– forward exchange contracts	–	54
Prepayments and deposits	11,266	18,270
	<hr/>	<hr/>
	94,829	127,285
	<hr/> <hr/>	<hr/> <hr/>

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 2008 \$'000 (unaudited)	31 March 2008 \$'000 (audited)
Current	54,425	70,893
1 to 3 months overdue	10,184	9,755
More than 3 months overdue but less than 12 months overdue	5,293	9,521
More than 12 months overdue	908	759
	<u>70,810</u>	<u>90,928</u>

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

10. CASH AND CASH EQUIVALENTS

	30 September 2008 \$'000 (unaudited)	31 March 2008 \$'000 (audited)
Deposits with banks	10,809	33,585
Cash at bank and in hand	57,368	29,146
Cash and cash equivalents in the balance sheet	68,177	62,731
Bank overdrafts	(1,047)	(2,301)
Cash and cash equivalents in the cash flow statement	<u>67,130</u>	<u>60,430</u>

11. TRADE AND OTHER PAYABLES

	30 September 2008 \$'000 (unaudited)	31 March 2008 \$'000 (audited)
Trade and bills payables	67,317	105,809
Other payables and accruals	9,853	8,980
Amount due to related companies	–	–
	<hr/>	<hr/>
Financial liabilities measured at amortised cost	77,170	114,789
Derivative financial instruments:		
--foreign exchange contracts	60	87
Sales deposits received	19,474	26,618
	<hr/>	<hr/>
	96,704	141,494
	<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 2008 \$'000 (unaudited)	31 March 2008 \$'000 (audited)
Due within 1 month or on demand	24,478	51,171
Due after 1 month but within 3 months	8,704	5,828
Due after 3 months but within 6 months	17,039	10,205
Due after 6 months but within 1 year	17,096	19,179
	<hr/>	<hr/>
Bills payable	67,317	86,383
	–	19,426
	<hr/>	<hr/>
	67,317	105,809
	<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 2008 \$'000 (unaudited)	31 March 2008 \$'000 (audited)
Non-current assets	–	–
Current assets	–	–
Current liabilities	–	–
Net liabilities	<u>–</u>	<u>–</u>
	Six months ended 30 September 2008 \$'000 (unaudited)	2007 \$'000 (unaudited)
Income	–	3,459
Expenses	–	(3,632)
Loss for the period	<u>–</u>	<u>(173)</u>

13. SHARE CAPITAL

	30 September 2008		31 March 2008	
	Number of shares '000 (unaudited)	Amount \$'000 (unaudited)	Number of shares '000 (audited)	Amount \$'000 (audited)
Authorised:				
Ordinary shares of \$0.1 each	<u>2,000,000</u>	<u>200,000</u>	<u>2,000,000</u>	<u>200,000</u>
Issued and fully paid:				
Ordinary shares of \$0.1 each	<u>288,248</u>	<u>28,825</u>	<u>288,248</u>	<u>28,825</u>

13. SHARE CAPITAL (CONTINUED)

On 28 August 2008, the Company entered into a Subscription Agreement with Subscribers (Mr. Li Song Xiao, Mr. Yuan Kun, Mr. Lu Zhao Qun, Mr. Jia Bo Wei and Mr. Xu Xiao Yang). Each of the Subscribers (except Jia Bo Wei) is a Director and Mr. Li Song Xiao is also a substantial shareholders of the Company and is therefore a connected person of the Company. Accordingly, the Subscription constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company had sought the approval of the Shareholders for the specific mandate to issue the Subscription Shares in the extraordinary general meeting on 10 October 2008.

An Independent Board Committee had been formed to advise the Independent Shareholders of the Company in respect of the Subscription and the Connected Transaction. Ample Capital Limited had been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in such regard.

The Subscribers agreed to subscribe for and the Company agreed to issue and allot 270,000,000 shares at the Subscription Price of HK\$0.30 per share. The Subscription Shares represent approximately 93.67% of the existing issued share capital of the Company and approximately 48.37% of the issued share capital of the Company as enlarged by the Subscription. All the new subscribed shares were issued on 5 November 2008, 6 November 2008 and 7 November 2008 respectively. The Company received the gross proceeds of HK\$81,000,000. The proceeds will be used for business expansion and general working capital purposes.

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 2008	5,131	-	(180)	2,033	12,332	1,944	71,018	92,278	585	92,863
Exchange difference on translation of the financial statements of subsidiary	-	-	-	273	-	-	-	273	-	273
Minority interest-acquisition of additional interests in subsidiary	-	-	-	-	-	-	-	-	(585)	(585)
Profit for the period	-	-	-	-	-	-	4,041	4,041	-	4,041
As at 30 September 2008	<u>5,131</u>	<u>-</u>	<u>(180)</u>	<u>2,306</u>	<u>12,332</u>	<u>1,944</u>	<u>75,059</u>	<u>96,592</u>	<u>-</u>	<u>96,592</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 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>

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.

On 30 September 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 September 2008 \$'000 (unaudited)	31 March 2008 \$'000 (audited)
Within 1 year	1,326	1,535
After 1 year but within 5 years	547	237
	<u>1,873</u>	<u>1,772</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.

On 30 September 2008, the total future minimum lease receipts under non-cancellable operating leases are as follows:

	30 September 2008 \$'000 (unaudited)	31 March 2008 \$'000 (audited)
Within 1 year	440	230
After 1 year but within 5 years	113	221
	<u>553</u>	<u>451</u>

16. CAPITAL COMMITMENTS

There is no capital commitments outstanding as at 30 September 2008.

17. CONTINGENT LIABILITIES

As at 30 September 2008, the Group had undertaken to guarantee certain banking facilities granted to certain subsidiaries to the extent of HK\$201,315,200 (31 March 2008: HK\$211,315,200).

As at the balance sheet date, 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 HK\$46,413,000 (31 March 2008: HK\$53,865,000).

18. MATERIAL RELATED PARTY TRANSACTIONS

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

		Six months ended	
		30 September	
	Note	2008	2007
		\$'000	\$'000
		(unaudited)	(unaudited)
Staff costs	(i)	<u>–</u>	<u>198</u>

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

19. POST BALANCE SHEET EVENTS

On 28 August 2008, the Company entered into a Subscription Agreement with Subscribers pursuant to which the Subscribers agreed to subscribe for and the Company agreed to issue and allot 270,000,000 shares at the Subscription Price of HK\$0.30 per share. The Subscription Shares represent approximately 93.67% of the existing issued share capital of the Company and approximately 48.37% of the issued share capital of the Company as enlarged by the Subscription. This transaction has not yet been completed as at 30 September 2008. All the new subscribed shares were issued on 5 November 2008, 6 November 2008 and 7 November 2008 respectively. The Company received the gross proceeds of HK\$81,000,000 subsequently. The proceeds will be used for business expansion and general working capital purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

The Group's turnover for the six months ended 30 September 2008 decreased by 15% due to the global economic environment, large projects slow down and not yet completed. The increased in gross profit was due to Euro rate weak and the cost of goods decreased accordingly. Earnings per share for the six months ended 30 September 2008 were HK1.40 cents (six months ended 30 September 2007: HK1.81 cent).

During the period under review, the Group's distribution costs and administrative expenses for the six months ended 30 September 2008 were HK\$11,761,000 and HK\$18,382,000, representing an increase of 2% and 20% respectively as compared to last corresponding period. The increase in administrative expenses was primarily due to the increase in staff costs and provision for trade debtor.

Future Outlook

In response to the occurrence of financial tsunami, the Group will continue to maintain a solid financial position. It is the Group's policy to adopt a prudent financial management strategy to meet risk fluctuation and investment opportunities. The Directors continue to adopt cautious and prudent approach in managing the portfolio of investments of the Group and developing the investment strategies.

The net proceeds from the allotment of new shares will be used for business expansion and general working capital purposes and are within the acceptance risk profile of the Company.

Employees and Remuneration Policy

The total number of employees of the Group as at 30 September 2008 was 115 (31 March 2008: 132). 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Liquidity

The Group continued to maintain a solid financial position. As at 30 September 2008, cash and bank balances including pledged fixed deposits of the Group were HK\$79,953,000 (31 March 2008: HK\$71,079,000). The cash and cash equivalents consisted of about 63% in Hong Kong dollars, 16% in Renminbi, 14% in Euro, 5% in US dollars and 2% in other currencies.

As at 30 September 2008, the Group had total assets of HK\$243,824,000 (2008: HK\$284,187,000) and total liabilities of HK\$118,407,000 (2008: HK\$162,499,000). As at 30 September 2008, the current ratio was 1.67 (31 March 2008: 1:1.47), calculated on the basis of current assets of HK\$188,544,000 (31 March 2008: HK\$228,452,000) over current liabilities of HK\$113,236,000 (31 March 2008: HK\$155,860,000).

The Group's bank borrowings amounted to approximately HK\$19,701,000 (31 March 2008: HK\$18,293,000). 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, was 8% (31 March 2008: 7%).

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 2008, certain of the Group's land and buildings with an aggregate carrying value amounting to HK\$16,830,000 (31 March 2008: HK\$17,000,000) and bank deposits of HK\$11,776,000 (31 March 2008: HK\$8,348,000) were pledged with the banks to secure banking facilities granted to the Group. Included in pledged bank deposits are denominated in Renminbi Yuan 4,596,000 (31 March 2008: RMB1,626,000) 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 2008 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 2008 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 <i>(note (a))</i>	50.01

Notes:

- (a) These shares were held by Happy City Holdings Limited, which was wholly-owned by Li Song Xiao.

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 2008 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

Notes:

- (a) Happy City Holdings Limited was the Company's holding company holding 50.01% of the issued shares of the Company as at 30 September 2008.

Save as disclosed above and disclosed under the section headed "Share Option Scheme" below, as at 30 September 2008, 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.

ADDITIONAL INFORMATION (CONTINUED)

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, whereby 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 at a nominal consideration to subscribe for shares of the company. The purpose of the scheme is to provide an opportunity for employees of the group to acquire an equity participation in the company and to encourage them to work towards enhancing the value of the company and its shares for the benefit of the company and its shareholders as a whole. The share option scheme shall be valid and effective for a period of ten years ending on 27 March 2012, after which no further options will be granted.

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the SEHK on the date of grant and the average closing price of the shares on the SEHK for the five business days immediately preceding the date of grant, 13 November 2006. The options vest in four equal instalments with the first installment vesting from the date of grant. The second, third and fourth instalments vest from one, two and three years after the date of grant respectively. The options are exercisable after the vesting date but within a period of five years from the date of grant. Each option gives the holder the right to subscribe for one ordinary share in the company.

The total number of securities available for issue under the share option scheme as at 30 September 2008 was 6,400,000 shares which represents 2.22% of the issued share capital of the company as at 30 September 2008. The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the company's ordinary shares in issue.

ADDITIONAL INFORMATION (CONTINUED)

Share Option Scheme (Continued)

As at 30 September 2008, the directors and employees of the company did not have any interests in options to subscribe for shares of the company (market value per share as at 30 September 2008 was HK\$0.26) granted at nominal consideration under the share option scheme of the company. The options are unlisted. Each option gives the right to subscribe for one ordinary share of HK\$0.1 each of the company.

Apart from the foregoing, at no time during the period was the company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the company to acquire benefits by means of acquisition of shares in or debentures of the company or any other body corporate.

Substantial Shareholders

As at 30 September 2008, 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 (note (a))	Beneficial owner	144,156,000	50.01
Liu Hui (note (b))	Interest of spouse	144,156,000	50.01
Chung Cheong Group Limited	Beneficial owner	63,076,000	21.88
Mo Huiqin (note (c))	Interest held by a controlled corporation	63,076,000	21.88

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) Mo Huiqin is the 100% controlling shareholder of Chung Cheong Group Limited

Save as disclosed above, as at 30 September 2008, 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 2008 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 36 and 37 of the 2008 Annual Report respectively.

ADDITIONAL INFORMATION (CONTINUED)

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules 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 required Model Code throughout the six months ended 30 September 2008.

Audit Committee

The Company's audit committee is composed of the three independent non-executive Directors of the Company. 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 2008.

Resignation of Non-Executive Director

Mr. Yin Jie had resigned as non-executive director of the Company with effect from 2 September 2008 following the previous substantial shareholder of the Company, which nominated him as a director, ceasing to hold shares in the Company in August 2008.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirm that the Company has maintained during the period under review the amount of public float as required under the Listing Rules.

Acknowledgement

Thanks to the enormous support of our shareholders and customers, and the concerted efforts of all our staff members. On behalf of the Group and the Board, I would like to express my heartfelt gratitude to them.

By order of the Board

Li Song Xiao

Chairman

Hong Kong, 18 December 2008