

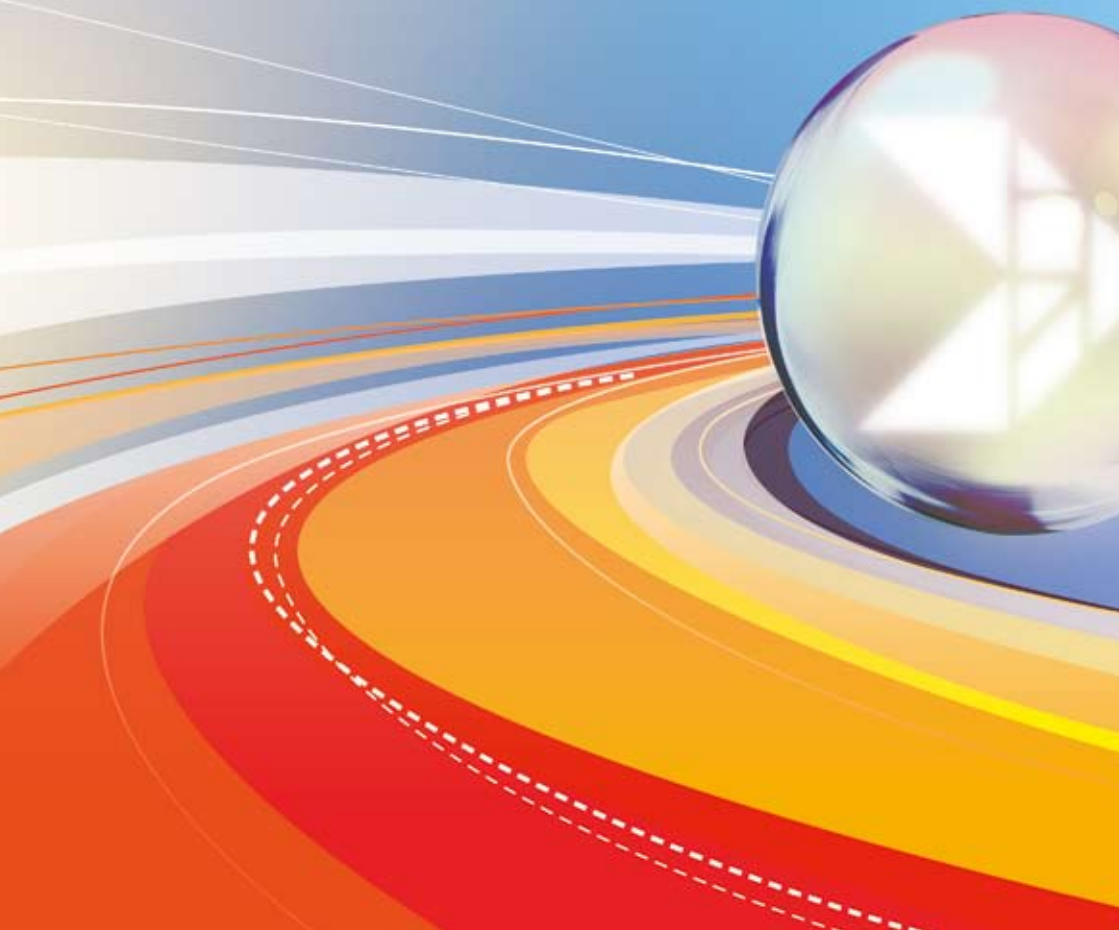


YARDWAY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 646)

Interim Report **2009**



CONTENTS

CORPORATE INFORMATION	2
INTERIM RESULTS	
Condensed Consolidated Statement of Comprehensive Income	3
Condensed Consolidated Statement of Financial Position	5
Condensed Consolidated Statement of Changes in Equity	7
Condensed Consolidated Cash Flow Statement	8
Notes to the Unaudited Condensed Consolidated Financial Statements	9
MANAGEMENT DISCUSSION AND ANALYSIS	
Results and Business Review	23
Future Outlook	23
Employees and Remuneration Policy	23
Liquidity	24
Foreign Exchange Exposure and Hedging	24
Charge on Assets	24
ADDITIONAL INFORMATION	
Directors' Interest in Shares and Underlying Shares	25
Share Option Scheme	26
Substantial Shareholders' Interests in Shares	27
Purchase, Redemption or Sale of the Company's Listed Shares	27
Corporate Governance	28
Model Code for Securities Transactions	28
Audit Committee	28
Sufficiency of Public Float	28
Acknowledgement	28

CORPORATE INFORMATION

Board of Directors

Executive Directors:

Mr. Li Song Xiao (*Chairman*)

Mr. Yuan Kun

Ms. Song Xuan

Mr. Xu Xiao Yang

Independent Non-executive Directors:

Mr. Gao Ling

Mr. Cui Yong

Mr. Zhang Qing Lin

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

Company Secretary

Mr. Li Wang Hing, Nelson

Auditor

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

Legal Advisers

Richards Butler
Conyers Dill & Pearman

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

Registered Office

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
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) 2511 1870
Fax: (852) 2511 1878

Listing Information

The Stock Exchange of Hong Kong Limited
Stock Code: 0646

Principal Bankers

DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited

Company Website

www.yardwaygroup.com.hk

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 2009 together with the comparative figures for the corresponding period in 2008. The interim results for the six months ended 30 September 2009 have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2009

(Expressed in Hong Kong dollars)

		Six months ended 30 September	
		2009	2008
		\$'000	\$'000
	<i>Note</i>	(unaudited)	(unaudited)
Turnover	3	93,314	133,772
Cost of sales/services		(68,734)	(100,446)
Gross profit		24,580	33,326
Other revenue	4	572	638
Other net income	4	5,669	923
Distribution costs		(6,683)	(11,761)
Administrative expenses		(15,220)	(18,382)
Profit from operations		8,918	4,744
Finance costs	5a	(157)	(661)
Profit before taxation	5	8,761	4,083
Income tax	6	(641)	(42)
Profit for the period		8,120	4,041

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 September 2009

(Expressed in Hong Kong dollars)

		Six months ended 30 September	
	<i>Note</i>	2009 \$'000 (unaudited)	2008 \$'000 (unaudited)
Other comprehensive income:			
Exchange differences on translating foreign operations		–	273
Other comprehensive income for the period, net of tax		<u>–</u>	<u>273</u>
Total comprehensive income for the period		<u>8,120</u>	<u>4,314</u>
Profit and total comprehensive income attributable to:			
Equity holders of the Company		8,120	4,314
Minority interests		–	–
		<u>8,120</u>	<u>4,314</u>
Earnings per share	8		
Basic		<u>0.72 cents</u>	<u>0.70 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2009

(Expressed in Hong Kong dollars)

	<i>Note</i>	At 30 September 2009 \$'000 (unaudited)	At 31 March 2009 \$'000 (audited)
Non-current assets			
Interest in leasehold land held for own use under operating leases		1,077	1,090
Property, plant and equipment		45,976	47,618
Investment properties		5,890	5,890
Deferred tax assets		242	242
		53,185	54,840
Current assets			
Trading securities-listed in Hong Kong		32,227	26,385
Inventories		22,211	22,314
Trade and other receivables	10	78,744	79,987
Current taxation recoverable		106	105
Pledged bank deposits		8,195	11,717
Cash and cash equivalents	11	100,072	119,230
		241,555	259,738
Current liabilities			
Trade and other payables	12	88,855	117,387
Bank loans and overdrafts		2,739	2,231
Obligations under finance leases		264	396
Current taxation		686	256
		92,544	120,270
Net current assets		149,011	139,468
Total assets less current liabilities		202,196	194,308

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(CONTINUED)*

At 30 September 2009

(Expressed in Hong Kong dollars)

	Note	At 30 September 2009 \$'000 (unaudited)	At 31 March 2009 \$'000 (audited)
Non-current liabilities			
Bank loans and overdrafts		3,718	3,883
Obligations under finance leases		–	66
Deferred tax liabilities		2,449	2,450
		6,167	6,399
NET ASSETS		196,029	187,909
CAPITAL AND RESERVES			
Share capital	13	55,825	55,825
Reserves		140,204	132,084
Total equity attributable to equity holders of the Company		196,029	187,909
TOTAL EQUITY		196,029	187,909

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2009

(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										
	(unaudited)										
	Share capital	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	\$'000
As at 1 April 2009	55,825	58,833	-	(180)	2,481	11,171	2,294	57,485	187,909	-	187,909
Profit for the period and total comprehensive income	-	-	-	-	-	-	-	8,120	8,120	-	8,120
As at 30 September 2009	<u>55,825</u>	<u>58,833</u>	<u>-</u>	<u>(180)</u>	<u>2,481</u>	<u>11,171</u>	<u>2,294</u>	<u>65,605</u>	<u>196,029</u>	<u>-</u>	<u>196,029</u>

	(unaudited)										
	Share capital	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	\$'000
As at 1 April 2008	28,825	5,131	-	(180)	2,033	12,332	1,944	71,018	121,103	585	121,688
Profit for the period	-	-	-	-	-	-	-	4,041	4,041	-	4,041
Other comprehensive income	-	-	-	-	273	-	-	-	273	-	273
Total comprehensive income	-	-	-	-	273	-	-	4,041	4,314	-	4,314
Minority interest-acquisition of additional interests in subsidiary	-	-	-	-	-	-	-	-	-	(585)	(585)
As at 30 September 2008	<u>28,825</u>	<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>125,417</u>	<u>-</u>	<u>125,417</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 2009

(Expressed in Hong Kong dollars)

		Six months ended 30 September	
	<i>Note</i>	2009 \$'000 (unaudited)	2008 \$'000 (unaudited)
Cash (used in)/generated from operations		(22,464)	12,289
Tax (paid)/refund		(211)	1,257
Net cash from operating activities		(22,675)	13,546
Net cash generated from/(used in) investing activities		3,548	(4,763)
Net cash used in financing activities		(595)	(2,137)
(Decrease)/increase in cash and cash equivalents		(19,722)	6,646
Cash and cash equivalents at beginning of period	<i>11</i>	119,069	60,430
Effect on foreign exchange rate changes		(19)	54
Cash and cash equivalents at end of period	<i>11</i>	99,328	67,130

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The unaudited condensed financial statements should be read in conjunction with the Annual Report of the Group for the year ended 31 March 2009.

2. Summary of principal accounting policies

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

The accounting policies adopted in the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2009. In the current interim period, the Group has applied for the first time, a number of new and revised standards, amendments and interpretations ("New or revised HKFRSs") issued by HKICPA which are effective for the financial year beginning on 1 January 2009.

Significant accounting policies newly adopted by the Group

HKAS 1 (Revised 2007) – Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised 2007) has had no impact on the reported results or financial position of the Group.

2. Summary of principal accounting policies (CONTINUED)**Significant accounting policies newly adopted by the Group (CONTINUED)***HKFRS 8 – Operating Segments*

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 “Segment Reporting”, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group’s primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the reportable segments determined in accordance with HKAS 14. Therefore it has had no impact on the reported results or financial position of the Group.

Impact of new and revised HKFRSs

The adoption of the new and revised HKFRSs that are effective for the current period has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

Impact of issued but not yet effective HKFRSs

The Group has not early adopted new or revised standards, amendments or interpretations that have been issued but are not yet effective. The adoption of HKFRS 3 (Revised 2008) may affect the accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the ownership interest in a subsidiary that do not result in loss of the subsidiary. Changes in the ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions.

The management is assessing the impact on the results and financial position of the Group upon application of these standards, amendments or interpretations.

3. Segment reporting

Business segments

The group comprises the following main business segments:

Sales and distribution activities

- the trading of vehicles, machinery and equipment

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		sales of spare parts		Unallocated		Consolidated	
	2009 \$'000 (unaudited)	2008 \$'000 (unaudited)	2009 \$'000 (unaudited)	2008 \$'000 (unaudited)	2009 \$'000 (unaudited)	2008 \$'000 (unaudited)	2009 \$'000 (unaudited)	2008 \$'000 (unaudited)
Revenue from external customers	57,554	88,266	35,760	45,506	-	-	93,314	133,772
Other revenue from external customers	-	-	-	-	498	241	498	241
Total	57,554	88,266	35,760	45,506	498	241	93,812	134,013
Segment results	7,695	5,934	(938)	5,027			6,757	10,961
Interest income							74	397
Unallocated operating income and expenses							2,087	(6,614)
Profit from operations							8,918	4,744
Finance costs							(157)	(661)
Taxation							(641)	(42)
Profit after tax							8,120	4,041

3. Segment reporting (CONTINUED)

Business segments

	Six months ended 30 September						Consolidated	
	Sales and distribution		sales of spare parts		Unallocated			
	2009	2008	2009	2008	2009	2008	2009	2008
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Depreciation and amortisation for the period	726	685	144	235	953	862		
Impairment losses on trade receivables	387	1,078	-	-	-	-		
Segment assets	155,851	138,034	18,241	9,739			174,092	147,773
Unallocated assets							120,648	96,051
Total assets							294,740	243,824
Segment liabilities	72,057	94,827	15,553	13,770			87,610	108,597
Unallocated liabilities							11,101	9,810
Total liabilities							98,711	118,407
Capital expenditure incurred during the period	64	606	2	24	116	653		

3. 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	
	2009 \$'000 (unaudited)	2008 \$'000 (unaudited)	2009 \$'000 (unaudited)	2008 \$'000 (unaudited)	2009 \$'000 (unaudited)	2008 \$'000 (unaudited)	2009 \$'000 (unaudited)	2008 \$'000 (unaudited)
Revenue from external customers	13,089	30,448	47,334	92,344	20,803	10,800	12,088	180
Segment assets	187,739	147,743	107,001	96,081	-	-	-	-
Capital expenditure incurred during the period	57	795	125	488	-	-	-	-

4. Other revenue and other net income

	Six months ended 30 September	
<i>Note</i>	2009 \$'000 (unaudited)	2008 \$'000 (unaudited)
Other revenue		
Interest income on bank deposits	<u>74</u>	<u>397</u>
Total interest income on financial assets not at fair value through profit and loss	74	397
Gross rental income from investment properties	150	209
Management fee income	–	31
Dividend income from listed securities	2	1
Others	<u>346</u>	<u>–</u>
	<u>572</u>	<u>638</u>
Other net income		
Net exchange (loss)/gain	(274)	707
Net gain on disposal of property, plant and equipment	23	207
Net gain on sale of trading securities	44	9
Net unrealised gain on trading securities carried at fair value	<u>5,876</u>	<u>–</u>
	<u>5,669</u>	<u>923</u>

5. Profit before taxation

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

	Six months ended 30 September	
	2009	2008
	\$'000	\$'000
	(unaudited)	(unaudited)
(a) Finance costs:		
Interest on bank advances and bank borrowings repayable within five years	78	560
Interest on bank advances and bank borrowings repayable after five years	52	74
Finance charges on obligations under finance leases	27	27
	157	661
(b) Staff costs (including director's remuneration):		
Contribution to defined contribution retirement plans	662	809
Salaries, wages and other benefits	12,793	13,815
	13,455	14,624
(c) Other items:		
Amortisation of land lease premium	12	12
Cost of inventories	61,850	93,789
Depreciation		
– assets held for own use under finance leases	177	177
– other assets	1,646	1,593
Impairment losses on trade and other receivables	387	1,078
Impairment losses on goodwill	–	315
Net (gain)/loss on forward exchange contract	(257)	60
Operating lease charges in respect of properties	1,322	1,287
Rentals from investment properties less direct outgoings of \$7,000 (six months ended 30 September 2008:\$10,000)	(143)	(199)

6. Income tax

	Six months ended 30 September	
	2009	2008
	\$'000	\$'000
	(unaudited)	(unaudited)
Current tax – Hong Kong Profits Tax		
Tax for the period	380	–
Current tax-PRC	261	42
Deferred tax	–	–
	641	42

The provision for Hong Kong Profits Tax for the period ended 30 September 2009 is calculated at 16.5%. PRC taxation is charged at the appropriate current rate of taxation ruling in the PRC.

7. Interim dividend

The directors do not recommend any interim dividend for the six months ended 30 September 2009 (2008: Nil).

8. 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 \$8,120,000 (six months ended 30 September 2008: \$4,041,000) and the weighted average number of 1,116,496,000 ordinary shares (six months ended 30 September 2008: 576,496,000 ordinary shares) in issue during the period. The weighted average number of ordinary shares in issue for the six months ended 30 September 2008 and 2009 has been retrospectively adjusted for the effect of the share sub-division on 13 February 2009.

(b) Diluted earnings per share

There were no potential dilutive ordinary shares in issues during the six months ended 30 September 2008 and 2009.

9. 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 2009 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 2009, the Group acquired items of plant and equipment with a cost of \$182,000 (six months ended 30 September 2008: \$1,283,000). Items of property, plant and equipment with a net book value of \$31,000 were disposed of during the six months ended 30 September 2009 (six months ended 30 September 2008: \$197,000), resulting in a gain on disposal of \$23,000 (six months ended 30 September 2008: \$207,000).

10. Trade and other receivables

	30 September 2009 \$'000 (unaudited)	31 March 2009 \$'000 (audited)
Trade receivables	56,401	50,474
Retentions receivables	16,131	12,319
Other receivables	461	1,510
	<hr/>	<hr/>
Receivables	72,993	64,303
Derivative financial instruments:		
– foreign currency forward contracts	262	40
Prepayments and deposits	5,489	15,644
	<hr/>	<hr/>
	78,744	79,987
	<hr/>	<hr/>

10. Trade and other receivables (CONTINUED)

All of the trade and other receivables 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.

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 2009 \$'000 (unaudited)	31 March 2009 \$'000 (audited)
Current	47,915	23,046
1 to 3 months overdue	4,487	11,325
More than 3 months overdue but less than 12 months overdue	1,966	11,430
More than 12 months overdue	2,033	4,673
	56,401	50,474

Trade receivables are due in accordance with contract terms or within 2 months from the date of billing.

11. Pledged bank deposits and cash and cash equivalents

	30 September 2009 \$'000 (unaudited)	31 March 2009 \$'000 (audited)
Pledged bank deposits	8,195	11,717
Non-pledged bank deposits	-	-
Cash and bank balances	100,072	119,230
Cash and cash equivalents in the balance sheet	108,267	130,947
Less: Pledged bank deposits	(8,195)	(11,717)
Cash and cash equivalents in the balance sheet	100,072	119,230
Bank overdrafts	(744)	(161)
Cash and cash equivalents in the cash flow statement	99,328	119,069

12. Trade and other payables

	30 September 2009 \$'000 (unaudited)	31 March 2009 \$'000 (audited)
Trade and bills payables	57,991	78,783
Other payables and accruals	18,746	11,558
Financial liabilities measured at amortised cost	76,737	90,341
Derivative financial instruments: – foreign currency forward contracts	5	64
Sales deposits received	12,113	26,982
	88,855	117,387

All trade and other payables apart from certain retention 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 2009 \$'000 (unaudited)	31 March 2009 \$'000 (audited)
Due within 1 month or on demand	26,549	35,705
Due after 1 month but within 3 months	11,577	5,093
Due after 3 months but within 6 months	4,576	9,192
Due after 6 months but within 1 year	4,522	7,541
	47,224	57,531
Bills payable	7,870	17,380
Retention payables	2,897	3,872
	57,991	78,783

13. Share capital

	30 September 2009		31 March 2009	
	Number of shares (<i>'000</i>) (unaudited)	Amount \$ <i>'000</i> (unaudited)	Number of shares (<i>'000</i>) (audited)	Amount \$ <i>'000</i> (audited)
Authorised:				
Ordinary shares of \$0.05 each	4,000,000	200,000	4,000,000	200,000
Issued and fully paid:				
Ordinary shares of \$0.05 each	1,116,496	55,825	1,116,496	55,825

14. Operating lease commitments

(a) As lessee

The Group as a lessee in respect of a number of properties held 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 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 September 2009 \$ <i>'000</i> (unaudited)	31 March 2009 \$ <i>'000</i> (audited)
Within 1 year	1,261	1,502
After 1 year but within 5 years	473	265
	1,734	1,767

14. Operating lease commitments (CONTINUED)

(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 2009, the total future minimum lease receipts under non-cancellable operating leases are as follows:

	30 September 2009 \$'000 (unaudited)	31 March 2009 \$'000 (audited)
Within 1 year	298	324
After 1 year but within 5 years	–	–
	298	324

15. Capital commitments

There is no capital commitments outstanding at 30 September 2009.

16. Contingent liabilities

At 30 September 2009, the Group had undertaken to guarantee certain banking facilities granted to certain subsidiaries to the extent of HK\$65,075,000 (31 March 2009: HK\$105,320,000).

As at 30 September 2009, the Group had a discounted bill of approximately HK\$5,600,000 which matured on 27 November 2009.

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\$14,326,000 (31 March 2009: HK\$31,903,000).

17. Post balance sheet event

On 30 November 2009, a joint announcement was issued for the completion of the Share Purchase Agreement.

Reference is made to the joint announcement (the "**Joint Announcement**") dated 25 November 2009 issued by Yardway Group Limited (the "**Company**") and Gentle International Holdings Limited (the "**Offeror**"). Capitalised terms used in this report shall have the same meanings as those defined in the Joint Announcement unless the context requires otherwise.

All the conditions mentioned in the section headed "Conditions precedent" under "THE SHARE PURCHASE AGREEMENT" in the Joint Announcement have been fulfilled. Completion took place on 30 November 2009. Immediately after Completion, the Offeror and parties acting in concert with it own 600,000,000 Shares, representing approximately 53.74% of the issued share capital of the Company as at the date of the joint announcement. Accordingly, the Offeror is required to make an unconditional mandatory general cash offer to acquire all the issued Shares other than those already owned by the Offeror and parties acting in concert with it pursuant to Rule 26.1 of the Takeovers Code. The composite document is expected to be despatched to the Shareholders within 21 days of the date of the Joint Announcement, which despatch date is expected to be on or before 16 December 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Results and Business Review

During the six months ended 30 September 2009, the Group registered a decline in total turnover of 30% to HK\$93,314,000 (2008 : HK\$133,772,000). Profit attributable to equity holder increased by 88% to HK\$8,120,000 (2008 : HK\$4,314,000) as compared with last corresponding period.

During the period under review, the Group's distribution costs and administrative expenses for the six months ended 30 September 2009 were HK\$6,683,000 and HK\$15,220,000, representing a decrease of 43% and 17% respectively as compared to the same period of last year. This is due to the Group has maintained a prudent financial management strategy in response to the global financial crisis.

Future Outlook

Looking ahead, as repercussions of the global financial turmoil and economic uncertainties will persist. The Group will continue to be on the alert and to pursue a prudent investment strategy in developing its existing and new businesses.

The management will continue monitoring and reviewing on the portfolio, and will also explore investment opportunities so as to enhance the value of the Company for the benefit of shareholders and the Group as a whole.

Employees and Remuneration Policy

The total number of employees of the Group as at 30 September 2009 was 103 (31 March 2009: 111). 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. The Group operates a share options scheme for the purpose of providing incentives and rewards to eligible directors and employees of the group to recognise their contribution to the success 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 liquid position. As at 30 September 2009, cash and bank balances including pledged fixed deposits of the Group were HK\$108,267,000 (31 March 2009: HK\$130,947,000). The cash and bank balances consisted of about 89% in Hong Kong dollars, 7% in Renminbi, 1% in US dollars and 3% in other currencies.

As at 30 September 2009, the Group had total assets of HK\$294,740,000 (31 March 2009: HK\$314,578,000) and total liabilities of HK\$98,711,000 (31 March 2009: HK\$126,669,000). As at 30 September 2009, the current ratio was 2.61 (31 March 2009: 2.16), calculated on the basis of current assets of HK\$241,555,000 over current liabilities of HK\$92,544,000.

The Group's bank borrowings amounted to HK\$6,457,000 (31 March 2009: HK\$6,114,000). The Group's borrowings, denominated in Hong Kong dollars, United States dollars and Euro, mainly comprise trust receipt loans and mortgage loans bearing floating interest rates. The Group's gearing ratio, based on the total borrowings to total assets, was 2.3% (31 March 2009: 1.9%).

Foreign exchange exposure and hedging

The Group's sales mainly conducted in United States dollars, Renminbi and Hong Kong dollars while the purchases conducted 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 2009, the Group's land and buildings with an aggregate carrying value amounting to HK\$16,038,000 (31 March 2009: HK\$16,200,000) and bank deposits of HK\$8,195,000 (31 March 2009: HK\$11,717,000) were pledged with the banks to secure banking facilities granted to the Group. Included in pledged bank deposits are denominated in Renminbi Yuan 1,322,000 (31 March 2009: RMB4,461,000) which are pledged by the Group's wholly owned subsidiary in Zhuhai, the PRC.

ADDITIONAL INFORMATION

Directors' Interest in Shares and Underlying Shares

The directors of the Company who held office at 30 September 2009 had the following interests in the shares of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests required to be kept under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

Interests in issued shares of the Company

Name of Director	Capacity	No. of ordinary shares interested	% of the Company's issued share capital
Li Song Xiao	Interest in corporation (note)	288,312,000	25.82%
	Beneficial owner	<u>480,000,000</u>	<u>42.99%</u>
		768,312,000	68.81%
Yuan Kun	Beneficial owner	20,000,000	1.79%
Xu Xiao Yang	Beneficial owner	10,000,000	0.90%

Note:

These shares are registered in the name of and beneficially owned by Happy City Holdings Limited, a company incorporated in the British Virgin Islands ("BVI"), and its entire issued share capital is wholly-owned by Li Song Xiao.

Apart from the foregoing, as at 30 September 2009, none of the directors of the Company or any of their spouses or children under eighteen years of age has interests in the shares and underlying shares of the Company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept 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.

ADDITIONAL INFORMATION (CONTINUED)**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 eligible participants to take up options at a nominal consideration to subscribe for shares of the Company. The purpose of the share option scheme is to enable the Group to grant options to the eligible participants including employees, executive and non-executive directors, suppliers and customers and shareholders of any members of the Group and any persons or entities that provided research, development or other technical support to the Group or any other group or classes of participants determined by the directors as incentive or rewards for their contribution to the Group. 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 Stock Exchange on the date of offer and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of offer. 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 2009 was 12,800,000 shares (after Share Subdivision) which represents 1.15% of the issued share capital of the Company as at 30 September 2009. 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.

Offer of an option shall have been accepted when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance of HK\$1 is received within such time as may be specified in the offer, which shall not be later than 21 days from the date of offer. The share option scheme will expire on 27 March 2012.

Apart from the foregoing, at no time during the year 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.

ADDITIONAL INFORMATION (CONTINUED)

Substantial Shareholders' Interests in Shares

The Company has been notified of the following interests in the Company's issued shares as at 30 September 2009 amounting to 5% or more of the ordinary shares in issue:

	Capacity	No. of ordinary shares of the Company interested	% of the Company's issued share capital
Li Song Xiao	Beneficial owner	480,000,000	42.99%
Happy City Holdings Limited (note (a))	Beneficial owner	288,312,000	25.82%
Liu Hui (note (b))	Interest of spouse	768,312,000	68.81%
Chung Cheong Group Limited	Beneficial owner	126,152,000	11.30%
Mo Huiqin (note (c))	Interest held by a controlled corporation	126,152,000	11.30%

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 768,312,000 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 2009, 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' 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.

ADDITIONAL INFORMATION (CONTINUED)

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 2009 except for the code provisions in respect of A.2.1, A.4.1 and E.1.2. Deviations from code provisions A.2.1, A.4.1 and E.1.2 of CG Code in respect of the separate roles of chairman and chief executive officer, service term of the directors and the chairman of the Board should attend the annual general meeting are explained in the section "Corporate Governance" on pages 19, 20 and 27 of the 2009 Annual Report respectively.

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 2009.

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 2009.

Sufficiency of Public Float

The Listing Rules normally requires issuers to maintain at least 25% of their listed securities in public hands at all times. Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, less than 25% of the Company's total issued share capital was held by the public as at the date of this report.

The Company is considering various ways to ensure the minimum percentage of public float be maintained in compliance with the relevant Listing Rules at the earliest possible moment.

Acknowledgement

The Board would like to take this opportunity to thank our shareholders, the management and our staff members for their dedication and support.

By order of the Board

Li Song Xiao

Chairman

Hong Kong, 22 December 2009