



YARDWAY GROUP LIMITED

啟帆集團有限公司

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

(Stock Code : 646)



Interim Report **2010/11**

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 Statement of Cash Flows	8
Notes to the Unaudited Condensed Consolidated Financial Statements	9
MANAGEMENT DISCUSSION AND ANALYSIS	
Results and Business Review	25
Future Outlook	25
Employees and Remuneration Policy	26
Liquidity	26
Foreign Exchange Exposure and Hedging	27
Charge on Assets	27
ADDITIONAL INFORMATION	
Directors' and chief executive's Interest in Shares and Underlying Shares	27
Share Option Scheme	29
Substantial Shareholders' Interests in Shares	30
Purchase, Redemption or Sale of the Company's Listed Securities	31
Corporate Governance	31
Model Code for Securities Transactions	31
Proposed Change of Company Name	32
Audit Committee	32
Sufficiency of Public Float	32
Acknowledgement	32

CORPORATE INFORMATION

Board of Directors

Executive Directors:

Mr. Xu Zhong Ping (*Chairman*)

Mr. Zhang Fang Hong

Ms. Song Xuan

Mr. Xu Xiao Yang

Non-executive Directors:

Mr. Ge Ze Min

Mr. Fong Sai Mo

Independent non-executive Directors:

Mr. Wong Kam Wah

Dr. Zhu Nan Wen

Mr. Gao Ling

Audit Committee

Mr. Wong Kam Wah (*Chairman*)

Dr. Zhu Nan Wen

Mr. Gao Ling

Remuneration Committee

Mr. Wong Kam Wah (*Chairman*)

Dr. Zhu Nan Wen

Mr. Gao Ling

Nomination Committee

Mr. Wong Kam Wah (*Chairman*)

Dr. Zhu Nan Wen

Mr. Gao Ling

Company Secretary

Mr. Li Wang Hing, Nelson

Auditor

CCIF CPA Limited

34/F, The Lee Gardens

33 Hysan Avenue

Causeway Bay

Hong Kong

Legal Advisers

Chiu & Partners

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

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Head Office and Principal Place of Business

Unit 1003-5

10th Floor, Shui On Centre

6-8 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 (“Board”) of directors (“Directors”) 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 2010 together with the comparative figures for the corresponding period in 2009.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2010

		Six months ended 30 September	
		2010	2009
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
	<i>Note</i>		
Turnover	3	89,233	93,314
Cost of sales/services		(70,171)	(68,734)
Gross profit		19,062	24,580
Other revenue	4	556	572
Other net income	4	28,702	5,669
Distribution costs		(3,918)	(6,683)
Administrative expenses		(20,168)	(15,220)
Profit from operations		24,234	8,918
Finance costs	5a	(115)	(157)
Profit before taxation	5	24,119	8,761
Income tax	6	(1,108)	(641)
Profit for the period		23,011	8,120

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 September 2010

		Six months ended 30 September	
	<i>Note</i>	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Other comprehensive income:			
Exchange differences on translation to presentation currency		3,311	—
Other comprehensive income for the period		3,311	—
Total comprehensive income for the period		26,322	8,120
Total comprehensive income attributable to the Owners of the Company		26,322	8,120
Earnings per share	8		
Basic		1.03 cents	0.36 cent
Diluted		N/A	N/A

The notes on pages 9 to 24 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2010

	At 30 September 2010 HK\$'000 (unaudited)	At 31 March 2010 HK\$'000 (audited)
<i>Note</i>		
Non-current assets		
Interest in leasehold land held for own use under operating leases	1,086	1,075
Property, plant and equipment	30,840	31,538
Investment properties	28,630	28,630
Intangible assets	93,169	—
	153,725	61,243
Current assets		
Trading securities	20,878	32,203
Inventories	5,672	8,196
Trade and other receivables	87,089	56,519
Current taxation recoverable	—	105
Pledged bank deposits	390	381
Cash and cash equivalents	70,544	102,079
	184,573	199,483
Current liabilities		
Trade and other payables	83,826	53,679
Bank loans and overdrafts	401	333
Current taxation	2,050	2,358
Provision for warranty	2,061	1,874
	88,338	58,244
Net current assets	96,235	141,239
Total assets less current liabilities	249,960	202,482

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(CONTINUED)*

At 30 September 2010

	At 30 September 2010 HK\$'000 (unaudited)	At 31 March 2010 HK\$'000 (audited)
Note		
Non-current liabilities		
Bank loans and overdrafts	9,599	3,550
Deferred tax liabilities	3,323	3,299
Provision for warranty	532	529
	13,454	7,378
	13,454	7,378
NET ASSETS	236,506	195,104
CAPITAL AND RESERVES		
Share capital	56,762	55,825
Reserves	179,744	139,279
	236,506	195,104
TOTAL EQUITY	236,506	195,104

The notes on pages 9 to 24 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2010

	Attributable to the Owners of the Company								
	Share capital	Share premium	Capital reserve	Contributed surplus	Exchange reserve	Revaluation reserve — land and buildings	Other reserves	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2009 (audited)	55,825	58,833	0	(180)	2,481	11,171	2,294	57,485	187,909
Profit for the period	-	-	-	-	-	-	-	8,120	8,120
Balance at 30 September 2009 (unaudited)	55,825	58,833	0	(180)	2,481	11,171	2,294	65,605	196,029
Balance at 1 April 2010 (audited)	55,825	58,833	0	(180)	2,741	14,366	2,570	60,949	195,104
Profit for the period	-	-	-	-	-	-	-	23,011	23,011
Other comprehensive income	-	-	-	-	3,311	-	-	-	3,311
Acquisition of subsidiaries	937	14,063	-	-	-	-	-	-	15,000
Recognition of share-based payments	-	-	-	-	-	-	80	-	80
Balance at 30 September 2010 (unaudited)	56,762	72,896	0	(180)	6,052	14,366	2,650	83,960	236,506

The notes on pages 9 to 24 form part of this interim report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2010

		Six months ended 30 September	
	<i>Note</i>	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Cash from/(used in) operations		2,348	(22,464)
Tax paid		(1,362)	(211)
Net cash from/(used in) operating activities		986	(22,675)
Net cash (used in)/from investing activities		(36,021)	3,548
Net cash from/(used in) financing activities		3,795	(595)
Decrease in cash and cash equivalents		(31,240)	(19,722)
Cash and cash equivalents at beginning of period	<i>11</i>	102,079	119,069
Effect on foreign exchange rate changes		(295)	(19)
Cash and cash equivalents at end of period	<i>11</i>	70,544	99,328

The notes on pages 9 to 24 form part of this interim 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 2010.

2. Summary of principal accounting policies

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 2010. 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 April 2010.

Significant accounting policies newly adopted by the Group

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment — Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 32 Amendment	<i>Amendment to HKAS 32 Financial Instruments: Presentation — Classification of Rights Issues</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i>
HK(IFRIC) — Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
Improvements to HKFRSs 2009	<i>Amendments to a number of HKFRSs</i>

2. Summary of principal accounting policies (CONTINUED)

The adoption of the above accounting policies had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented. Accordingly, no prior period adjustment has been recognised.

3. Segment reporting

Business segments

The Group comprises the following main business segments:

1. Sewage treatment operation
2. Aviation, metro and railway equipment
3. Vehicles and spare parts
4. Dredging equipment
5. Provision of engineering services

The sewage treatment operation derives its revenue from sewage treatment under build-operate-transfer ("BOT") contract.

The aviation, metro and railway equipment segment derives its revenue from sales of train and track maintenance equipment and airport ground support equipment.

The vehicles and spare parts segment derives its revenue from sales of coaches, trucks and spare parts of bus.

The dredging equipment segment derives its revenue from sales of components of dredging equipment.

The provision of engineering services segment provides warranty and maintenance services and after-sales services.

3. Segment reporting (CONTINUED)

Business segments (CONTINUED)

(a) Segment results

	Segment revenue Six months ended 30 September		Segment profit (loss) Six months ended 30 September	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Sewage treatment operation	7,795	0	43,447	0
Aviation, metro and railway equipment	62,991	50,274	1,971	2,752
Vehicles and spare parts	9,728	18,911	(650)	(604)
Dredging equipment	3,342	19,563	(310)	2,276
Provision of engineering services	5,377	4,566	1,842	703
Others	0	0	0	(117)
	89,233	93,314	46,300	5,010

(b) Reconciliation of segment profit to profit before taxation is as follows:

	Six months ended 30 September	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Segment profit	46,300	5,010
Unallocated items		
Other revenue and net income (expense)	(11,009)	6,778
Depreciation and amortisation	(745)	(953)
Finance costs	0	(125)
Unallocated head office and corporate expenses	(10,427)	(1,949)
Profit before taxation	24,119	8,761

4. Other revenue and other net income

	Six months ended 30 September	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Other revenue		
Interest income on bank deposits	47	74
Total interest income on financial assets not at fair value through profit and loss	47	74
Gross rental income from investment properties	493	150
Dividend income from listed securities	—	2
Others	16	346
	556	572
Other net income		
Net exchange gain/(loss)	400	(274)
Net (loss)/gain on disposal of property, plant and equipment	(256)	23
Net gain on sale of trading securities	186	44
Net unrealised (loss)/gain on trading securities carried at fair value	(11,325)	5,876
Gain from a bargain purchase	39,676	—
Others	21	—
	28,702	5,669

5. Profit before taxation

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

	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(a) Finance costs:		
Interest on bank advances and bank borrowings repayable within five years	59	78
Interest on bank advances and bank borrowings repayable after five years	56	52
Finance charges on obligations under finance leases	—	27
	115	157
(b) Staff costs (including Director's remuneration):		
Contribution to defined contribution retirement plans	582	662
Salaries, wages and other benefits	9,795	12,793
	10,377	13,455
(c) Other items:		
Amortisation of land lease premium	12	12
Cost of inventories	67,896	61,850
Depreciation		
— assets held for own use under finance leases	—	177
— other assets	1,558	1,646
Impairment losses on trade and other receivables	—	387
Net gain on forward exchange contract	—	(257)
Operating lease charges in respect of properties	1,752	1,322
Rentals from investment properties less direct outgoings of \$18,000 (six months ended 30 September 2009: \$7,000)	(475)	(143)

6. Income tax

	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax — Hong Kong Profits Tax		
Tax for the period	105	380
Current tax — PRC	1,003	261
Deferred tax	—	—
	<hr/> 1,108 <hr/>	<hr/> 641 <hr/>

The provision for Hong Kong Profits Tax for the period ended 30 September 2010 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 2010 (2009: 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 HK\$23,011,000 (six months ended 30 September 2009: HK\$8,120,000) and the weighted average number of 2,233,196,918 ordinary shares (six months ended 30 September 2009: 2,232,992,000 ordinary shares) in issue during the period. The weighted average number of ordinary shares in issue for the six months ended 30 September 2009 and 2010 has been retrospectively adjusted for the effect of the share sub-division on 13 February 2009 and 1 March 2010.

(b) Diluted earnings per share

There were no potential dilutive ordinary shares in issue during the six months ended 30 September 2009 and 2010.

9. Movements in investment properties, property, plant and equipment, and intangible assets

The Directors are of the opinion that the carrying value of the Group's investment properties as at 30 September 2010 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 2010, the Group acquired items of plant and equipment with a cost of HK\$670,000 (six months ended 30 September 2009: HK\$182,000). Items of property, plant and equipment with a net book value of HK\$416,000 were disposed of during the six months ended 30 September 2010 (six months ended 30 September 2009: HK\$31,000), resulting in a loss on disposal of HK\$256,000 (six months ended 30 September 2009: gain of HK\$23,000).

In addition, the Group acquired intangible assets of HK\$92,454,000 on a provisional fair value basis arising from acquisition of subsidiaries.

10. Trade and other receivables

	30 September 2010 HK\$'000 (unaudited)	31 March 2010 HK\$'000 (audited)
Trade receivables	63,898	29,739
Retentions receivables	17,214	12,582
Other receivables	—	10,393
	<hr/>	<hr/>
Receivables	81,112	52,714
Prepayments and deposits	5,977	3,805
	<hr/>	<hr/>
	87,089	56,519
	<hr/> <hr/>	<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 at the end of the reporting period.

	30 September 2010 HK\$'000 (unaudited)	31 March 2010 HK\$'000 (audited)
Current	58,490	20,616
1 to 3 months overdue	4,941	6,112
More than 3 months overdue but less than 12 months overdue	289	2,952
More than 12 months overdue	178	59
	63,898	29,739

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 2010 HK\$'000 (unaudited)	31 March 2010 HK\$'000 (audited)
Pledged bank deposits	390	381
Cash and bank balances	70,544	102,079
	70,934	102,460
Less: Pledged bank deposits	(390)	(381)
Cash and cash equivalents in the consolidated statement of financial position	70,544	102,079
Bank overdrafts	—	—
Cash and cash equivalents in the consolidated statement of cash flows	70,544	102,079

12. Trade and other payables

	30 September 2010 HK\$'000 (unaudited)	31 March 2010 HK\$'000 (audited)
Trade and bills payables	69,289	34,648
Other payables and accruals	11,968	13,156
Amount due to a related company	699	374
Financial liabilities measured at amortised cost	81,956	48,178
Sales deposits received	1,870	5,501
	83,826	53,679

All trade and other payables apart from certain retention payables are expected to be settled within one year.

12. Trade and other payables (CONTINUED)

Included in trade and other payables are trade and bills payables with the following ageing analysis at the end of the reporting period.

	30 September 2010 HK\$'000 (unaudited)	31 March 2010 HK\$'000 (audited)
Due within 1 month or on demand	62,742	21,710
Due after 1 month but within 3 months	242	2,831
Due after 3 months but within 6 months	—	7
Due after 6 months but within 1 year	—	3,917
Due after 1 year	—	349
	62,984	28,814
Bills payable	—	2,207
Retention payables	6,305	3,627
	69,289	34,648

13. Share capital

	No. of shares '000	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.025 each	8,000,000	200,000
Issued and fully paid:		
Ordinary shares		
At 1 April 2010	2,232,992	55,825
Issue of shares upon acquisition	37,500	937
At 30 September 2010	2,270,492	56,762

13. Share capital (CONTINUED)

The Group operates a share option scheme for eligible Directors and employees of the Group. During the period, 64,500,000 share options were granted. At 30 September 2010, the number of outstanding share options are 64,500,000 (31 March 2010: Nil).

14. Operating lease commitments

(a) As lessee

The Group leases 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 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 September 2010 HK\$'000 (unaudited)	31 March 2010 HK\$'000 (audited)
Within 1 year	2,526	3,046
After 1 year but within 5 years	1,138	—
	3,664	3,046

(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.

14. Operating lease commitments (CONTINUED)

(b) As lessor (CONTINUED)

At 30 September 2010, the total future minimum lease receipts under non-cancellable operating leases are as follows:

	30 September 2010 HK\$'000 (unaudited)	31 March 2010 HK\$'000 (audited)
Within 1 year	762	710
After 1 year but within 5 years	212	507
	974	1,217

15. Capital commitments

At 30 September 2010, the Company has no capital commitments outstanding.

16. Contingent liabilities

At 30 September 2010, the Group had undertaken to guarantee certain banking facilities granted to certain subsidiaries to the extent of HK\$18,007,000 (31 March 2010: HK\$10,493,000).

As at the end of the reporting period, 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 end of the reporting period under the guarantees issued is the facilities drawn down by the subsidiaries totaling HK\$28,075,000 (31 March 2010: HK\$21,958,000).

17. Acquisition of subsidiaries

On 9 April 2010, the Company entered into an agreement to purchase 100% equity interest in Fanhe (Beijing) Water Investment Co., Ltd ("Fanhe Water") at a total consideration of HK\$55,000,000. Fanhe Water is an investment holding company and its subsidiary, Fanhe (Hulu Island) Water Investment Co., Ltd ("Fanhe Hulu"), is engaged in sewage treatment business in mainland China pursuant to a BOT contract dated 23 April 2010.

17. Acquisition of subsidiaries (CONTINUED)

	Acquiree's carrying amount before combination	Fair value adjustment	Provisional fair value
	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	191	—	191
Intangible assets	—	92,454	92,454
Other receivables	570	—	570
Cash and cash equivalents	4,421	—	4,421
Other payables and accruals	(2,960)	—	(2,960)
	<hr/>	<hr/>	<hr/>
Total net assets identified	2,222	92,454	94,676
			<hr/>
Gain from a bargain purchase			39,676
			<hr/>
Total consideration			55,000
			<hr/> <hr/>
Satisfied by:			
Cash			40,000
Issue of consideration shares			15,000
			<hr/>
			55,000
			<hr/> <hr/>

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	HK\$'000
Cash consideration paid	(40,000)
Cash and cash equivalents in subsidiaries acquired	4,421
	<hr/>
Cash outflow on acquisition of subsidiaries	(35,579)
	<hr/> <hr/>

17. Acquisition of subsidiaries (CONTINUED)

As at the date of this report, the Group has not finalized the fair value assessment for the acquiree's identifiable assets, liabilities and contingent liabilities as at the date of acquisition. The relevant fair value of net assets acquired stated above is on a provisional basis and may be subject to significant changes in future period when these valuations have been finalized.

18. Post balance sheet event

Share transaction and connected transaction

On 9 November 2010, Winsum Investment Limited as purchaser ("Purchaser") (being a wholly-owned subsidiary of the Company) and Mr. Xu Zhong Ping and Mr. Lee Ho Fu, Honcy as vendors ("Vendors") entered into an acquisition agreement ("Acquisition Agreement"), pursuant to which the Purchaser has agreed to acquire and the Vendors have agreed to sell the entire issued capital of, and shareholders loan to, Power Score Limited ("Target Company"). The Target Company is the ultimate parent company of a PRC company ("PRC Company"), namely, Beijing Jingrui Kemai Water Purification Technology Co., Ltd. (北京精瑞科邁淨水技術有限公司), which is the owner of certain registered patents and patents under application ("Relevant Patents").

The consideration ("Consideration") for the acquisition is initially RMB10 million (equivalent to approximately HK\$11,668,000) which shall be satisfied by the allotment and issue of 17,467,066 new shares of the Company at an issue price of HK\$0.668 per share, subject to the terms and conditions in the Acquisition Agreement. The Consideration is subject to upward adjustment with reference to the net profits after tax and before revaluation or amortization of any of the Relevant Patents of the PRC Company. Pursuant to such adjustment, the Company shall allot and issue up to an additional 69,868,263 shares at an issue price of HK\$0.668 per share.

Mr. Xu Zhong Ping being one of the vendors is a connected person by virtue of his being a Director and a substantial shareholder holding through Gentle International Holdings Limited approximately 52.85% of the issued share capital of the Company as at 9 November 2010. As such, the acquisition constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules.

18. Post balance sheet event (CONTINUED)

Reasons for and benefits of the acquisition

The principal activities of the Group are trading of vehicles, machinery, equipment, yachts, spare parts and provision of engineering services. The Group has since September 2010 begun a new line of business of developing environmental technology in relation to waste water processing.

As mentioned in the Company's announcement dated 12 April 2010, the Directors consider that with a huge population base, the PRC is far from water abundant. Water resource available is only 2,200 cubic meters per capita in the PRC compared with the average global water availability of 8,800 cubic meters per capita. With the population in the PRC expected to grow, current water shortages may be exacerbated. To address severe water shortages and natural water resource pollution attributable to rapid growth in population, urbanization and industrialization in the PRC, the PRC government has enacted stricter environmental standards and invested significantly in water treatment projects to promote sustainable economic growth. Accordingly, the demand for water treatment infrastructure has experienced and is expected to continue to experience rapid growth.

Since September 2010, following the completion of the acquisition of Fanhe (Beijing) Water Investment Co., Ltd., the Group has been carrying on, under certain BOT contract, sewage treatment-related business. The Relevant Patents are technologies which are instrumental to the sewage treatment business planned to be carried on by the Group.

Based on the above and the potential growth of the sewage treatment industry, the Board is of the view that the acquisition of the Target Company and its subsidiaries will allow the Group to use the Relevant Patents, which will enable the Group to have a solid technology foundation to capture the rapid growth of sewage treatment business in the PRC and hence, will enhance the Group's long term profitability and the said acquisition is in the interests of the Company and its shareholders as a whole.

Please refer to the announcement of the Company dated 9 November 2010 for details of the above transaction.

18. Post balance sheet event (CONTINUED)

Non-binding Letter of Intent for the Proposed Establishment of a Joint Venture

On 22 November 2010, the Company entered into a non-legally binding letter of intent with Beijing Capital (Hong Kong) Limited in relation to the proposed establishment of a joint-venture company in China. If the establishment of the joint-venture is materialized, the Company and Beijing Capital (Hong Kong) Limited will each contribute 50% of the joint-venture company's registered capital in cash respectively. The contribution will be used to establish a platform for sales of magnetic isolation water treatment equipment (磁分離移動水處理設備) and highly-magnetic soil water treatment equipment (磁高泥水處理設備) and provision of technology promotion and consultation services relating to them. Through the platform, the joint-venture can provide the services to meet the demand for urban and rural sewage treatment, water treatment for natural water such as lakes and rivers, urban landscape water treatment, upgrading and reconstruction of urban sewage treatment into emergency water and high-phosphates industrial waste water treatment.

Please refer to the announcement of the Company dated 22 November 2010 for details of the above proposed transaction.

MANAGEMENT DISCUSSION AND ANALYSIS

Results and business review

During the six months ended 30 September 2010, the Group recorded a decline in total turnover of 4% to HK\$89,233,000 (2009 : HK\$93,314,000). Profit attributable to equity holder increased by 183% to HK\$23,011,000 (2009 : HK\$8,120,000) as compared with corresponding period last year.

During the reporting period, the sewage treatment business generated income with the amount of HK\$7,795,000. When the expansion and upgrade is completed, the sewage treatment fee will be increased from the existing RMB0.70/ton to RMB0.97/ton. The sewage treatment income will be increased accordingly.

Future outlook

Under the leadership of the Board, the Group has diversified from its original principal businesses to include water treatment business. Following the completion of the acquisition of Fanhe (Beijing) Water Investment Co., Ltd. in September 2010, the Group has been carrying on, under BOT contract, sewage treatment-related business. The proposed acquisition of Beijing Jingrui Kemai Water Purification Technology Co. Ltd is expected to further enable the Group to lay a solid technology foundation to capture the rapid growth of the environmental protection technology business in China. The Group may source funds from internally or externally for its future development.

In China, the foreseeable inflationary pressures may lead to a tightened monetary policy. Meanwhile, efforts to change in the approach of economic growth and adjust the economic structure in China will be increased. Progress in energy saving and emission reduction and robustness of the environmental protection industry in China will be favourable factors for further development of the water industry. Water resources available per capita in China is only 2,200 cubic meters, compared with the global average of 8,800 cubic meters per capita. Moreover, the expected population growth in China would further exacerbate current water shortages. To address severe water shortages and natural water resource pollution in China, the government has enacted stricter environmental protection standards and invested significantly in water treatment projects to promote sustainable economic growth. The establishment of an environmental protection alliance and the actualization stage of regional governance may call forth the emergence of large environmental conglomerate enterprises. The environmental changes demand higher requirements for corporate capabilities of the water industry, indicating the coexistence of opportunities and challenges in the water industry in the coming years.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Future outlook (CONTINUED)

Facing the opportunities and challenges of development in the industry, and remarkable room for growth of income from sewage treatment business, the Group will continue its strategies for this growing business, uphold its organizational mission of raising sewage treatment business quality, and apply great efforts in achieving fast growth on the basis of capability enhancement and value creation. The organizational mission will expand both in its content and external reach, focusing more on sewage treatment business with target on the industry chain of the water industry. The Group will also be led by technology enhancement, striving to realize the state of a concentric and diversified development, for creating the maximum value for shareholders.

Employees and remuneration policy

The total number of employees of the Group as at 30 September 2010 was 138 (31 March 2010: 95). 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 option 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.

Liquidity

The Group continued to maintain a liquid position. As at 30 September 2010, cash and bank balances including pledged bank deposits of the Group were HK\$70,934,000 (31 March 2010: HK\$102,460,000). The cash and bank balances consisted of about 15% in Hong Kong dollars, 49% in Renminbi, 25% in United States dollars and 11% in other currencies.

As at 30 September 2010, the Group had total assets of HK\$338,298,000 (31 March 2010: HK\$260,726,000) and total liabilities of HK\$101,792,000 (31 March 2010: HK\$65,622,000). As at 30 September 2010, the current ratio was 2.09 (31 March 2010: 3.42).

The Group's bank borrowings amounted to HK\$10,000,000 (31 March 2010: HK\$3,883,000). 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 3.0% (31 March 2010: 1.5%).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 United States dollars and 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 2010, the Group's land and buildings with an aggregate carrying value amounting to HK\$20,000,000 (31 March 2010: HK\$20,000,000) and bank deposits of HK\$390,000 (31 March 2010: HK\$381,000) were pledged with the banks to secure banking facilities granted to the Group. Included in pledged bank deposits are denominated in RMB334,000 (31 March 2010: RMB334,000) which were pledged by the Group's wholly owned subsidiary in Zhuhai, the PRC.

ADDITIONAL INFORMATION

Directors' and chief executive's interest in shares and underlying shares

As at 30 September 2010, the Directors and chief executive of the Company had the following interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) 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 shares interested	% of the Company's issued share capital
Xu Xiao Yang (<i>note a</i>)	Beneficial owner	20,000,000	0.88%
Xu Zhong Ping (<i>note b</i>)	Interest held by a controlled corporation	1,200,000,000	52.85%

ADDITIONAL INFORMATION (CONTINUED)**Directors' and chief executive's interest in shares and underlying shares (CONTINUED)****Interests in the underlying shares of the Company**

Name of Director	Capacity	No. of shares interested	% of the Company's issued share capital
Xu Xiao Yang (<i>note a</i>)	Personal interest	3,000,000	0.13
Xu Zhong Ping (<i>note b</i>)	Personal interest	2,200,000	0.10
Zhang Fang Hong (<i>note c</i>)	Personal interest	22,000,000	0.97

Note:

- (a) As at 30 September 2010, Mr. Xu Xiao Yang was the beneficial owner of 20,000,000 shares. Mr. Xu was also entitled to share options to subscribe for a maximum of 3,000,000 shares upon exercise of the options in full.
- (b) As at 30 September 2010, Mr. Xu Zhong Ping was interested in 1,200,000,000 shares held under Gentle International Holdings Limited ("Gentle") which is owned as to 60% by Mr. Xu. Mr. Xu was therefore deemed to be interested in the said 1,200,000,000 shares held by Gentle under Part XV of the SFO. Mr. Xu was also entitled to share options to subscribe for a maximum of 2,200,000 shares upon exercise of the options in full.
- (c) As at 30 September 2010, Mr. Zhang Fang Hong was entitled to share options to subscribe for a maximum of 22,000,000 shares upon exercise of the options in full.

Save as disclosed above, as at 30 September 2010, none of the Directors nor chief executive of the Company had interests or short interests in the shares, underlying shares and debentures of the Company, 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.

ADDITIONAL INFORMATION (CONTINUED)

Share option scheme

The Company has adopted a share option scheme (“Share Option Scheme”) on 10 September 2010, whereby the Directors are authorised, at their discretion, to invite eligible participants to take up options at a nominal consideration to subscribe for shares. 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 9 September 2020, after which no further options will be granted.

The exercise price of options is the highest of the nominal value of the shares on the date of the offer of the share options (“Offer Date”), the closing price of the shares on the Stock Exchange on the Offer Date and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the Offer Date.

On 17 September 2010, options (“**Options**”) to subscribe for a total of 64,500,000 shares were granted to certain individuals at an exercise price of HK\$0.460 per share under the Share Option Scheme. Among those Options, Options to subscribe for 2,200,000, 22,000,000 and 3,000,000 shares were granted to Directors of the Company, namely Mr. Xu Zhong Ping, Mr. Zhang Fang Hong and Mr. Xu Xiao Yang respectively. The validity period of the said options commenced from 17 September 2010 and will expire on 16 September 2020. The above granted Options vest in four equal annual instalments with the first instalment vesting from the date of grant (i.e. 17 September 2010) and up to the last business day immediately preceding the first anniversary of such vesting date. The second, third and fourth instalments vest from the first business day immediately after the first, second and third anniversary respectively and up to the last business day immediately preceding the end of the relevant anniversary respectively. The Options are exercisable after the vesting date but within a period of ten years from the date of grant. Each Option gives the holder the right to subscribe for one ordinary share in the Company.

ADDITIONAL INFORMATION (CONTINUED)

Share option scheme (CONTINUED)

The total number of securities available for issue upon exercise of all options to be granted under the Share Option Scheme and any other schemes as at 30 September 2010 was 158,799,200 shares which represents approximately 6.99% of the issued share capital of the Company as at 30 September 2010. The number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period is limited to 1% of the Company's shares in issue.

Substantial shareholders' interests in shares

As at 30 September 2010, so far as is known to the Directors, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

	Capacity	No. of shares of the Company interested	% of the Company's issued share capital
Gentle International Holdings Limited	Beneficial owner	1,200,000,000	52.85%
Li Song Xiao	Beneficial owner	336,624,000	14.83%
Chung Cheong Group Limited	Beneficial owner	172,304,000	7.59%
Mo Huiqin (<i>note</i>)	Interest held by a controlled corporation	172,304,000	7.59%

Note: Mo Huiqin is the sole shareholder of Chung Cheong Group Limited and was therefore deemed to be interested in the said 172,304,000 shares held by Chung Cheong Group Limited under Part XV of the SFO.

ADDITIONAL INFORMATION (CONTINUED)

Substantial shareholders' interests in shares (CONTINUED)

Save as disclosed above, as at 30 September 2010, so far as is known to the Directors, no person (other than the Directors or chief executive 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 are recorded in the register required to be kept under section 336 of the SFO.

Purchase, redemption or sale of the Company's listed securities

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 to the Listing Rules, throughout the six months ended 30 September 2010 except for the code provisions in respect of A.2.1 and A.4.1. Details of the 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 non-executive Directors respectively are set out in the section "Corporate Governance Report" on page 19 of the 2010 Annual Report. However, in line with the expansion and development of the Company and in order to comply with code provision A.2.1, Mr. Zhang Fang Hong has been appointed as the chief executive officer of the Company with effect from 12 August 2010.

Model code for securities transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct in respect of Directors' dealings in the Company's securities. Specific enquiry has been made of all the Directors who have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2010.

ADDITIONAL INFORMATION (CONTINUED)

Proposed change of company name

On 29 September 2010, the Company announced that, subject to the approval of its shareholders in an extraordinary general meeting and the approval by the Registrar of Companies in the Cayman Islands, the name of the Company shall be changed from “Yardway Group Limited 啟帆集團有限公司” to “China Environmental Technology Holdings Limited 中國環保科技控股有限公司”. The Board considered that the proposed change of Company name will provide the Company with a more appropriate identification of the gradually growing business of the Group and the direction of the Group’s future business development. A circular containing, inter alia, details of this proposed change of Company name will be despatched to the Company’s shareholders in due course.

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 2010.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this interim report.

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

Xu Zhong Ping

Chairman

Hong Kong, 23 November 2010