



YARDWAY GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)
(the “Company”)

CONNECTED TRANSACTIONS

On 22 January 2003, the Principal Joint Venture Agreement was entered into between, inter alia, the Company, Trade Port, Sinowin, NWD, CNAC in relation to the establishment of the Principal Joint Venture to engage in the acquisition of the Property for the development of warehousing business in Hong Kong. On the same date, the Sub-Joint Venture Agreement was entered into between Yardway Limited, a wholly owned subsidiary of the Company, Sinoway, a wholly owned subsidiary of CNAC and Sinowin to govern the respective rights and obligations of Yardway Limited and Sinoway in Sinowin, a joint venture owned as to 80% by Sinoway and 20% by Yardway Limited, which will act as the investment vehicle of Sinoway and Yardway Limited in the Principal Joint Venture. Pursuant to the Principal Joint Venture Agreement, the Company and CNAC guarantees to Trade Port and NWD that Sinowin will duly and punctually perform and fulfil the financing obligations of Sinowin on a several basis in proportion to their beneficial shareholding interest in Sinowin, i.e. as to 20% by the Company and 80% by CNAC.

The Group will indirectly own 10% equity interest in the Principal Joint Venture. The Directors believe that the investment in the Principal Joint Venture, which is established to pursue on the Development Project, will form part of the Company’s business strategy to cover logistics related business and to provide an additional source of income to the Group.

The establishment of the Principal Joint Venture and the Sub-Joint Venture constitute connected transactions of the Company for the purposes of the Listing Rules as CNAC is a substantial shareholder of the Company, holding 20% of the issued share capital of the Company on the date of signing of the Principal Joint Venture Agreement and the Sub-Joint Venture Agreement.

PRINCIPAL JOINT VENTURE AGREEMENT DATED 22 JANUARY 2003

Parties

1.

Trade Port

:

Trade Port Enterprises Limited, a wholly owned subsidiary of NWD;
2.

NWD

:

New World Development Company Limited (each of Trade Port and NWD is independent third party of the Company and is not connected with the Company, its directors, chief executive, substantial shareholders or its subsidiaries or any of their respective associates (as defined in the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”)).
3.

CNAC

:

China National Aviation Corporation (Group) Limited, a substantial shareholder of the Company holding 20% issued share capital of the Company as at the date of the Principal Joint Venture Agreement and the Sub-Joint Venture Agreement.
4.

Sinowin

:

Sinowin Universal Limited, a company incorporated in the British Virgin Islands on 2 January 2002 the entire issued share capital of which being US\$10.00 divided into 10 shares of US\$1.00 each as at the date of the Principal Joint Venture Agreement and the Sub-Joint Venture Agreement is held as to 80% by Sinoway (i.e. 8 shares of US\$1.00 each) and 20% by Yardway Limited (i.e. 2 shares of US\$1.00 each) pursuant to the Sub-Joint Venture Agreement (as defined below).
5.

The Company

:

Purpose of the Principal Joint Venture

The Principal Joint Venture Agreement was entered into between Trade Port, Sinowin, NWD, CNAC and the Company to enter into certain commitments and to regulate the exercise of their respective rights in relation to the formation of a joint venture by Trade Port and Sinowin (“**Principal Joint Venture**”) which entire issued share capital will be held as to 50% by Trade Port and 50% by Sinowin and the board of directors of the Principal Joint Venture will be jointly controlled by Trade Port and Sinowin. Pursuant to the Principal Joint Venture Agreement, the Principal Joint Venture is established for carrying business in the acquisition and holding of a property known as “All Those 20,000 equal undivided 141,765th parts or shares of and in the Tsuen Wan New Territories Land Registry as TSING YI TOWN LOT NO.128” together with a building already erected thereon for manufacturing and warehousing purposes (“**Property**”) comprising a gross floor area of not less than 20,000 square metre and the management, development, redevelopment, utilisation and leasing of the same as a manufacturing site, godown area, logistic centre and/or other permitted use and the disposal of any part or parts of the Property or any premises or building thereon or to be developed thereon (“**Development Project**”).

Pursuant to the Principal Joint Venture Agreement, each of Trade Port and Sinowin will hold 50% of the shareholding interest in the Principal Joint Venture and Trade Port shall procure the transfer of the title of the Property from a wholly owned subsidiary of Trade Port to the Principal Joint Venture upon fulfilment of the conditions including but not limited to the grant of the modification of user of the Property from the use of manufacturing and assembling internal combustion engines and marine accessories to “godown and/or general industrial use” by the Hong Kong Government and the uplifting of restriction on alienation of the Property under the relevant government lease (“**Conditions**”) at a consideration of HK\$38,800,000 (being the acquisition cost of the Property paid by Trade Port previously under a tender in 2001) and related stamp duty payable for the transfer of the title of the Property and land premium and administrative fees payable for the fulfilment of the Conditions.. Trade Port and Sinowin will be required to inject financing by way of shareholder’s loan into the Principal Joint Venture in accordance with their respective shareholdings in the Principal Joint Venture. Pursuant to the Principal Joint Venture Agreement, the Company and CNAC guarantees to Trade Port and NWD that Sinowin will duly and punctually perform and fulfil the financing obligations of Sinowin on a several basis in proportion to their beneficial shareholding interest in Sinowin, i.e. as to 20% by the Company and 80% by CNAC. According to the Principal Joint Venture Agreement and the Sub-Joint Venture Agreement, the Group will, through Yardway Limited, indirectly own 10% equity interest in the Principal Joint Venture. The joint venture partners of the Principal Joint Venture will share profit in accordance with their respective percentage shareholdings.

SUB-JOINT VENTURE AGREEMENT DATED 22 JANUARY 2003

Parties

1.

Yardway Limited

:
2.

Sinoway

:

Sinoway Development Company Limited, a wholly owned subsidiary of CNAC
3.

Sinowin

:

Purpose of the Sub-Joint Venture Agreement

The purpose of entering into Sub-Joint Venture Agreement between Sinoway, a wholly owned subsidiary of CNAC and Yardway Limited, a wholly owned subsidiary of the Company, is to regulate the respective rights and obligations of Sinoway and Yardway Limited in Sinowin, including but not limited to the financing obligation amongst Sinoway and Yardway Limited to Sinowin based on their percentage shareholdings therein, i.e. as to 80% owned by Sinoway and as to 20% owned by Yardway Limited currently, subject to an initial maximum funding not exceeding HK\$10,000,000 to be injected by Yardway Limited and an initial maximum funding not exceeding HK\$40,000,000 to be injected by Sinoway into Sinowin, both by way of interest free shareholder’s loans for Sinowin’s onwards advance also by way of interest free shareholder’s loans to the Principal Joint Venture. In the event that either party shall default in contributing the initial maximum funding as and when the advances are called for, the non-defaulting party may make extend such funding (“**Defaulter’s Loans**”) on behalf of the defaulting party with interest calculated at the higher of a rate of 10% point above the prime lending rate per annum of The Hongkong and Shanghai Banking Corporation Limited or 20% per annum. If the defaulting party shall fail to repay the Defaulter’s Loans within one calendar month to the non-defaulting party, the non-defaulting party shall be entitled to acquire the defaulting party’s shareholdings in Sinowin and outstanding shareholder’s loan due to the defaulting shareholder by Sinowin at a rate of 70% of its par value (as regards to the shareholdings) and 70% of face value (as regards to the shareholder’s loan already contributed by the defaulting party) (“**Options to Acquire**”) In the event that the Defaulter’s Loans is granted by either party or the Option to Acquire is exercised by either party, the Company will make a further announcement in this respect as soon as possible and take all necessary steps to comply with the Listing Rules as appropriate. Shortly after the signing of the Principal Joint Venture Agreement, it is expected that Yardway Limited

and Sinoway will be required to inject approximately HK\$3,880,000 and HK\$15,520,00, both by way of interest free shareholder’ loans into Sinowin respectively for its onwards advance by way of interest free shareholder’s loans to the Principal Joint Venture. There is no commitment on the part of Sinowin to contribute any minimum amount to the Principal Joint Venture.

ESTIMATED CAPITAL INVESTMENT

Currently, Yardway Limited will be obliged to inject funding not exceeding HK\$10,000,000 which will be financed by internal source of funding of the Group and/or proceeds from the initial public offers of the Company completed in March 2002. The Directors do not expect that there will be any material effect on the financial position of the Group resulting from the injection of such funding.

REASONS FOR THE PARTICIPATION IN THE JOINT VENTURES

The Company and its subsidiaries (the “**Group**”) are principally engaged in the sale and distribution of vehicles and equipment covering most major transport sectors in Hong Kong and the PRC with a specialisation in railway maintenance equipment, airport ground support equipment and coaches and trucks. The Group is also engaged in the distribution of yachts and the provision of engineering services for coaches and trucks. The Directors consider that the investment in the Development Project is in line with the Group’s business plan in developing sorting and conveyor system and other logistics related equipment for the use of airport, railway and postal and telecommunication services, which will together extend the Company’s business scope to cover logistics related business and to provide an additional source of income to the Group. The Directors believe that logistics related business will be prosperous in Hong Kong and the PRC following the rapid development of the economy in the PRC. Hence, it is in the best interest and commercial benefit of the Company to participate in the logistics related business (including the Development Project) in the long term.

CONNECTED TRANSACTIONS

The formation of the Principal Joint Venture and Sinowin constituted connected transactions for the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“**Listing Rules**”) as CNAC is a substantial shareholder of the Company. The Company’s estimated capital investment in the Principal Joint Venture is initially up to an amount not exceeding HK\$10,000,000. Should the Directors anticipate that the total investment of the Company in the Principal Joint Venture shall exceed HK\$10,000,000 in the future due to the grant of the Defaulter’s Loans by Yardway Limited to Sinoway or the exercise of the Option to Acquire by Yardway Limited, approval from its independent shareholders in an extraordinary general meeting will be sought against the further contribution of funding into Sinowin and/or the Principal Joint Venture and whereupon, a further announcement will be made and circular will also be sent to shareholders giving details of the Principal Joint Venture Agreement and the Sub-Joint Venture Agreement in accordance with the Listing Rules.

CHANGE OF USE OF PROCEEDS OF INITIAL PUBLIC OFFERS

In order to cope with the recent development of the businesses of the Group, the Directors (including the Independent non-executive Directors) had resolved to change part of the use of proceeds disclosed in the prospectus in relation to initial public offers dated 19 March 2002 issued by the Company (“**Prospectus**”) as follows:

Original scheduled specific use of proceeds	Proposed change of/existing specific use of proceeds
<div><div>•</div><div>about HK\$5 million for the setting up of additional representative offices in the PRC</div></div> <div><div>•</div><div>about HK\$8 million for the setting up of a joint venture in the PRC to engage in manufacturing, assembling and integrating railway maintenance equipment and related systems</div></div> <div><div>•</div><div>about HK\$4 million for the expansion of the sales and marketing team in both Hong Kong and the PRC</div></div> <div><div>•</div><div>about HK\$5 million for the expansion of the Group’s after sales services, including acquiring and upgrading in-house facilities and for recruitment of additional engineers</div></div> <div><div>•</div><div>about HK\$2 million for the promotion of the Group’s corporate profile by participating in relevant exhibitions and organising seminars introducing new equipment to potential customers</div></div>	<div><div>•</div><div>about HK\$5 million to be utilised for participating in the Principal Joint Venture</div></div> <div><div>•</div><div>about HK\$8 million to be utilised for the setting up a wholly foreign owned enterprise in the PRC to engage in inter alia, developing, design, manufacturing and sales of sorting and conveyor system, welding machines and railway maintenance equipment and the design, development and installation of logistics related equipment</div></div> <div><div>•</div><div>utilised or to be utilised as per schedule</div></div> <div><div>•</div><div>utilised or to be utilised as per schedule</div></div> <div><div>•</div><div>utilised or to be utilised as per schedule</div></div>

The Directors are of the view that the change of the above specific use of proceeds will facilitate the Group to apply the relevant proceeds to such project that is expected to generate higher income and to extend its scope of business to logistics related business and is therefore in the benefit of the Company and its shareholders taken as a whole. Should there be any other changes in the use of proceeds in the future, further announcement will be made to disclose the relevant changes.

By Order of the Board

Fong Kit Wah Alan

Chairman

Hong Kong, 24 January 2003

The Directors of the Company jointly and severally accept full responsibility of the accuracy of the information contained in this announcement and confirm having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.