

(incorporated in the Cayman Islands with limited liability) (Stock Code: 646)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2004

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AUDITED RESULTS

The Board of Directors (the "Board") of Yardway Group Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2004 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 March 2003		
	Notes	HK\$'000	<i>HK\$'000</i> (restated)	
Turnover Cost of sales/services	2	228,507 (199,120)	201,852 (147,107)	
Gross profit Other revenue Other net income/(losses) Distribution costs Administrative expenses Surplus/(deficit) on revaluation		29,387 1,710 2,881 (18,612) (19,637) <u>86</u>	54,745 944 (4,412) (17,397) (21,457) (1,605)	
(Loss)/profit from operations Finance costs	$\beta(a)$	(4,185) (1,229)	10,818 (1,541)	
(Loss)/profit from ordinary activities before taxation Income tax	3 4	(5,414) 1,148	9,277 (1,207)	
(Loss)/profit from ordinary activities after taxation Minority interests		(4,266) (89)	8,070	
(Loss)/profit attributable to shareholders		(4,355)	8,070	
Dividends attributable to the year: Final dividend proposed after the balance sheet date	5		2,800	
(Loss)/earnings per share Basic	6	(1.6) cents	2.9 cents	

Notes Change in accounting policy

Change in accounting policy In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 April 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax. As a result of the adoption of this accounting policy, the Group's loss for the year has been decreased by HK\$1,328,000 (2003) profit decreased by HK\$12,000). The new recommise policy is been endered externationally contain the protection for the accounting the decreased by HK\$12,000. accounting policy has been adopted retrospectively. Certain comparative figures have been restated accordingly.

2. Turnover and segmental information

Turnover represents the net invoiced value of goods supplied to customers, services income and commission income An analysis of the Group's revenue and results for the year by business and geographical segments respectively is as follows

Rusiness segments

business segments		es and ibution	engir services	sion of neering and sales re parts	Unall	ocated	Cons	olidated
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 <i>HK\$'000</i> (restated)
Revenue from external customers	189,142	154,861	39,365	46,991	-	-	228,507	201,852
Other revenue from external customers		_	-	_	1,710	944	1,710	944
Total	189,142	154,861	39,365	46,991	1,710	944	230,217	202,796
- Segment results Unallocated operating	(6,096)	12,904	2,112	2,204			(3,984)	15,108
income and expenses							(201)	(4,290)
(Loss)/profit from operations Finance costs Taxation Minority interests							(4,185) (1,229) 1,148 (89)	10,818 (1,541) (1,207) –
(Loss)/profit attributable to shareholders							(4,355)	8,070
Depreciation for the year	662	544	150	389	1,583	994		
Geographical segments								
	2004	g Kong 2003 HK\$'000	The 2004 HK\$'000	PRC 2003		ted States nerica 2003 HK\$'000	0 2004 HK\$2000	2003

Hong Kong		The PRC		of America		Others	
2004	2003	2004	2003	2004	2003	2004	2003
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
58,903	61,489	147,236	129,641	15,344	8,666	7,024	2,056
	2004 HK\$'000	2004 2003 <i>HK\$'000 HK\$'000</i>	2004 2003 2004 HK\$'000 HK\$'000 HK\$'000	2004 2003 2004 2003 HK\$'000 HK\$'000 HK\$'000 HK\$'000	2004 2003 2004 2003 2004 <i>HK\$`000 HK\$`000 HK\$`000 HK\$`000 HK\$`000</i>	2004 2003 2004 2003 2004 2003 <i>HK\$`000 HK\$`000 HK\$`000 HK\$`000 HK\$`000 HK\$`000</i>	2004 2003 2004 2003 2004 2003 2004 2003 2004 <i>HK\$'000 HK\$'000 HK\$'000 HK\$'000 HK\$'000 HK\$'000 HK\$'000</i>

(Loss)/profit from ordinary activities before taxation

The Group's (loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting)

		2004 HK\$'000	2003 HK\$'000
(a)	Finance costs Interest on bank advances and bank borrowings repayable within five years Interest on bank advances and bank borrowings repayable after five years	879 317	1,220 293
	Finance charges on obligations under finance leases	33	28
	=	1,229	1,541
		2004 HK\$'000	2003 HK\$'000
<i>(b)</i>	Staff costs Contribution to defined contribution plans	1,010	891
	Salaries, wages and other benefits	23,156	27,106
	_	24,166	27,997
	Average number of employees during the year	119	128

2004	2003
HK\$'000	HK\$'000
187,833	139,509
196	156
652	635
2,134	1,688
261	239
1,385	2,160
(157)	(129)
	2003
HK\$'000	HK\$'000
	(restated)
21	1 1 7 0
	1,450
44	(309)
125	1,141
55	54
(1,328)	(18)
-	30
(1.228)	10
(1,328)	12
(1,148)	1,207
	HK\$'000 187,833 196 652 2,134 261 1,385 (157) 2004 HK\$'000 81 44 125 55 (1,328) (1,328)

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2004 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2004 is calculated at 17.5% (2003: 16%) of the estimated assessable profits for the year. PRC taxation is charged at the appropriate current rate of taxation ruling in the PRC.

Dividends

	2004 HK\$'000	2003 <i>HK\$'000</i>
Proposed final dividend (2003: HK 1 cent per share)		2,800

The directors do not recommend the payment of a final dividend for the year ended 31 March 2004 (2003: HK1 cent per share)

6. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of approximately HK\$4,355,000 (2003 (restated): profits of HK\$8,070,000) and the weighted average number of 280,000,000 ordinary shares (2003: 280,000,000 shares) in issue during the year.

The diluted (loss)/earnings per share is not presented as all the potential ordinary shares are anti-dilutive for the years ended 31 March 2003 and 2004.

Comparative figures

Certain comparative figures have been reclassified to conform with current year's presentation. The changes included the reclassification of exchange losses of sales and purchases to other net income/(losses). The new reclassification of the accounting items was considered to provide a more appropriate presentation of the Group's result.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the year ended 31 March 2004, the Group's turnover amounted to approximately HK\$228,507,000, representing an increase of about 13% compared to HK\$201,852,000 in last year. The Group recorded a loss of approximately HK\$4,355,000, compared to a profit of HK\$8,070,000 (restated) in 2003.

Business Review

For the year under review, the Group faced a difficult and challenging business environment. The outbreak of Severe Acute Respiratory Syndrome ("SARS") and the Iraq War in the first half year of 2003 had created an unfavorable operating environment to the Group.

Despite these unfavorable factors, the Group recorded a turnover of approximately HK\$228,507,000 for the year under review, representing an increase of approximately 13% over the previous year. Even though the Group had achieved a growth of sales, the Group's gross margin was decreased. As mentioned in the interim report, the Group's purchases were mainly sourced from Europe, the continuing strong Euro against United States Dollars tremendously increased our cost of sales for the year under review. As a result, the Group's gross profit margin decreased from approximately 27% to 13% and recorded a loss attributable to shareholders of approximately HK\$4,355,000.

During the year under review, the turnover of sales and distribution recorded an increase of approximately 22% while the turnover of provision of engineering services decreased by approximately 16% from the previous year. The increase in sales and distribution was mainly due to some large scale projects of relived year. The increase in sales and distribution was mainly due to some tage scale projects of railway maintenance equipment and airport ground support equipment were completed during the year. Although the Group had recorded satisfactory performance in sales, the gross profit margin was drastically reduced, due mainly to the effect of the strong Euro. The effect of the strong Euro was that it drove upwards, our cost of sales and seriously reduced our margins, which we were forced to reduce to keep our products and components purchased in Euro competitively priced against products and components from other countries, selling in weaker currencies, such as United States dollars. The Group had entered into certain derivative contracts to hedge its exposure to fluctuations in foreign currencies. These instruments could protect our gross profit margins from further decrease. However, it could not restore our profit margins to the level before the appreciation of Euro.

The Group continued to maintain its cost control measures. During the year under review, administrative expenses for the Group decreased by approximately 8.5% compared to previous year. This was mainly due to the combination of the Group's two offices in Hong Kong in August 2003.

Through the interest in an associate, the Group indirectly owned 10% interest in a joint venture which was established for carrying business in the acquisition and holding a property situated in Tsing Yi, New Territories. In view of the booming of property market during the year under review, the Group disposed of its interest in an associate on 4 February 2004. As a result of this disposal, the Group had recorded a gain of approximately HK\$727,000.

The Group's wholly owned subsidiary in Zhuhai, the PRC was well positioned to benefit from the PRC's growth. In 30 October 2003, this subsidiary obtained ISO9001:2000. The certification is part of the Group's long term plan to strengthen the management and the assembly process operation.

Prospects

Hong Kong retail sales in the early months of 2004 are robust and will continue to drive the economy up in the coming months. Business environment will become more favourable in Hong Kong and we expect that it will benefit the Group's business in Hong Kong.

Looking ahead, we are still confident of and optimistic about our results for the coming year. Due to the continued growth in the PRC's economy, the Group believes that the PRC market will offer tremendous potential. In addition, the Group has recently formed a new subsidiary company with a European company to actively pursue the technology transfer to China of some advanced European engine technologies and environmental technologies and through this business cooperation, we will capture the appropriate investment opportunities that can enhance the Group's business.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2004, the Group employed 111 (2003: 130) staff in Hong Kong and the PRC. The Group remunerates its employees based on their performance, work experience and the prevailing market price. The remuneration packages include basic salary, double pay, commission, insurance and mandatory provident fund. Share options might also be granted to eligible employees of the Group. The packages are reviewed annually by the management.

LIQUIDITY AND FINANCIAL RESOURCES

Capital structure

As at 31 March 2004, the Group had total assets of approximately HK\$195,425,000 (2003 (restated): HK\$212,042,000) which were financed by liabilities of approximately HK\$105,799,000 (2003 (restated): HK\$116,322,000) and equity of approximately HK\$89,037,000 (2003 (restated): HK\$95,720,000). The Group had current assets of approximately HK\$155,675,000 (2003: HK\$170,704,000) and current liabilities of approximately HK\$95,924,000 (2003: HK\$106,045,000).

Liquidity

As at 31 March 2004, the Group had cash and bank balances including pledged fixed deposits totalling HK\$70,441,000 (2003: HK\$34,714,000). The Group's cash and bank balances were mainly denominated in United States dollars, Euro and Hong Kong dollars. The Group generally finances its operations with internally generated resources and banking facilities.

The Group's bank borrowings amounted to approximately HK\$24,161,000 (2003: HK\$41,533,000). Most of these bank borrowings were denominated in Hong Kong dollars, United States dollars and Euro bearing floating interest rates. As at 31 March 2004, the current ratio was 1.62 (2003: 1.61), calculated on the basis of current assets over current liabilities and the gearing ratio, representing a ratio of total borrowings to total assets, was 13% (2003: 20%).

Exchange exposure and hedging

The Group mainly earns revenue in the currencies of United States dollars, Renminbi and Hong Kong dollars while the costs are substantially denominated in Euro. As such, the Group is subject to foreign currency exposure. Any significant volatility and weakening of United States dollars against Euro could adversely affect the Group's business and the results of operations.

The Group monitors the risks in foreign exchange and hedges its foreign exchange exposure by way of placing forward foreign exchange contracts. As at 31 March 2004, the Group had total outstanding forward foreign exchange contracts amounting to approximately HK\$45,063,000 (2003: HK\$50,576,000).

Charge on assets

As at 31 March 2004, the Group had pledged its land and buildings situated in Hong Kong with an aggregate net book value amounting to HK\$19,100,000 (2003: HK\$18,861,000) and bank deposits of HK\$10,885,000 (2003: HK\$12,777,000) to secure banking facilities granted to the Group.

USE OF PROCEEDS

The Group raised approximately HK\$32 million, net of related expenses, from initial public offering of the Company on 28 March 2002. Of these proceeds, an aggregate amount of about HK\$24 million were applied in accordance with the prospectus dated 19 March 2002 and the announcements in relation to change part of the use of proceeds dated 24 January 2003 and dated 13 February 2004. The unused net proceeds of approximately HK\$3 million and HK\$5 million will apply respectively as follows:-

- using for a wholly foreign owned enterprise in Zhuhai 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; and
- construction of a processing plant in Zhuhai for assembling railway maintenance equipment like welding machine and grinding stone.

The unused net proceeds are currently placed on short term deposits with various banks in Hong Kong.

CONTINGENT LIABILITIES

At 31 March 2004, the Group had contingent liabilities in relation to guarantees given to the third parties (representing customers and potential customers) for performing duties and quality assurance amounting to approximately HK\$830,000 (2003: HK\$1,886,000) and HK\$20,889,000 (2003: HK\$26,043,000) respectively.

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 year ended 31 March 2004.

COMPLIANCE WITH CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") issued by The Stock Exchange of Hong Kong Limited ("Stock Exchange"), throughout the accounting period covered by the annual report except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors. The audit committee has reviewed with the management and the Company's external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting process including the review of the financial statements for the year ended 31 March 2004.

PUBLICATION OF THE FINAL RESULTS ON THE INTERNET WEBSITE OF THE STOCK EXCHANGE

A detailed results announcement containing all information required by Paragraph 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

APPRECIATION

The directors and management would like to thank all staff for their contributions to the Group during the year.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Fong Kit Wah, Alan, Mr. Rourke James Grierson and Ms. Cheung Miu Sin as the executive directors, Mr. Yin Jie as the non-executive directors and Mr. Law Yui Lun and Mr. Wong Man Chung, Francis as the independent non-executive directors.