

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2005

RESULTS

The Board of Directors (the “Board”) of Yardway Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2005 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Year ended 31 March	
		2005 <i>HKS'000</i>	2004 <i>HKS'000</i>
Turnover	1	156,383	228,507
Cost of sales/services		(122,907)	(199,120)
Gross profit		33,476	29,387
Other revenue	2	1,171	1,710
Other net income	2	2,119	2,881
Distribution costs		(14,731)	(18,612)
Administrative expenses		(17,380)	(19,637)
Surplus on revaluation		3,119	86
Profit/(loss) from operations		7,774	(4,185)
Finance costs	3(a)	(880)	(1,229)
Profit/(loss) from ordinary activities before taxation	3	6,894	(5,414)
Income tax	4	202	1,148
Profit/(loss) from ordinary activities after taxation		7,096	(4,266)
Minority interests		(92)	(89)
Profit/(loss) attributable to shareholders		7,004	(4,355)
Dividends attributable to the year:	5		
Final dividend proposed after the balance sheet date		2,800	—
Earnings/(loss) per share	6		
Basic		2.5 cents	(1.6) cents

Notes:

1. 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:

Business segments

	Sales and distribution		Provision of engineering services and sales of spare parts		Unallocated		Consolidated	
	2005 <i>HKS'000</i>	2004 <i>HKS'000</i>	2005 <i>HKS'000</i>	2004 <i>HKS'000</i>	2005 <i>HKS'000</i>	2004 <i>HKS'000</i>	2005 <i>HKS'000</i>	2004 <i>HKS'000</i>
Revenue from external customers	127,678	189,142	28,705	39,365	—	—	156,383	228,507
Other revenue from external customers	—	—	—	—	1,171	1,710	1,171	1,710
Total	127,678	189,142	28,705	39,365	1,171	1,710	157,554	230,217
Segment results	7,816	(6,096)	1,307	2,112			9,123	(3,984)
Unallocated operating income and expenses							(1,349)	(201)
Profit/(loss) from operations							7,774	(4,185)
Finance costs							(880)	(1,229)
Taxation							202	1,148
Minority interests							(92)	(89)
Profit/(loss) attributable to shareholders							7,004	(4,355)
Depreciation for the year	1,543	662	136	150	1,156	1,583		
Segment assets	134,971	135,443	22,120	36,390			157,091	171,833
Unallocated assets							30,500	23,592
Total assets							187,591	195,425
Segment liabilities	68,071	74,427	2,998	6,202			71,069	80,629
Unallocated liabilities							13,591	25,170
Total liabilities							84,660	105,799
Capital expenditure incurred during the year	1,189	2,145	662	7	1,751	1,238		

Geographical segments

	Hong Kong		The People's Republic of China (“PRC”)		The United States of America		Others	
	2005 <i>HKS'000</i>	2004 <i>HKS'000</i>	2005 <i>HKS'000</i>	2004 <i>HKS'000</i>	2005 <i>HKS'000</i>	2004 <i>HKS'000</i>	2005 <i>HKS'000</i>	2004 <i>HKS'000</i>
Revenue from external Customers	31,931	58,903	112,289	147,236	2,553	15,344	9,610	7,024
Segment assets	157,211	176,473	28,074	17,282	—	—	2,306	1,670
Capital expenditure incurred during the year	2,733	1,290	869	234	—	—	—	1,866

2. Other revenue and other net income

	2005 <i>HKS'000</i>	2004 <i>HKS'000</i>
Other revenue		
Gross rental income from investment properties	246	162
Interest income	588	273
Royalty income	172	1,124
Others	165	151
	1,171	1,710
Other net income		
Exchange gain, net	2,112	2,210
Gain/(loss) on disposal of fixed assets	27	(56)
Gain on disposal of an associate	—	727
Net realised and unrealised losses on trading securities carried at fair value	(20)	—
	2,119	2,881

3. Profit/(loss) from ordinary activities before taxation

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

	2005 <i>HKS'000</i>	2004 <i>HKS'000</i>
(a) Finance costs		
Interest on bank advances and bank borrowings repayable within five years	539	879
Interest on bank advances and bank borrowings repayable after five years	302	317
Finance charges on obligations under finance leases	39	33
	880	1,229
(b) Staff costs		
Contribution to defined contribution plans	883	1,010
Salaries, wages and other benefits	18,928	23,156
	19,811	24,166
(c) Other items		
Cost of inventories	113,956	187,833
Increase in provision for warranties	80	196
Auditors' remuneration	783	652
Depreciation		
— owned fixed assets	2,484	2,134
— assets held for use under finance leases	351	261
Amortisation of lease prepayment	14	—
Operating lease charges in respect of properties:		
— minimum lease payments	1,336	1,385
Rentals receivable from investment properties less direct outgoings of HK\$10,000 (2004: HK\$5,000)	(236)	(157)

4. Income tax

	2005 <i>HKS'000</i>	2004 <i>HKS'000</i>
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	88	81
Under-provision in respect of prior year	425	44
	513	125

Current tax – PRC

Tax for the year	61	55
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Deferred tax

Origination and reversal of temporary differences	(776)	(1,328)
	(202)	(1,148)

Provision for Hong Kong Profits Tax for 2005 is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year. PRC taxation is charged at the appropriate current rate of taxation ruling in the PRC.

5. Dividends

	2005 <i>HKS'000</i>	2004 <i>HKS'000</i>
Proposed final dividend of HK1 cent per share (2004: Nil)	2,800	—
	2,800	—

The directors have resolved to recommend the payment of a final dividend of HK\$2,800,000 representing HK1 cent per share (2004: Nil) in respect of the year ended 31 March 2005.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

6. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of HK\$7,004,000 (2004: loss of HK\$4,355,000) and the weighted average number of 280,000,000 ordinary shares (2004: 280,000,000 shares) in issue during the year.

The diluted earnings/(loss) per share is not presented as all the potential ordinary shares are anti-dilutive for the years ended 31 March 2004 and 2005.

7. Recently issued accounting standards

Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

DIVIDEND

The directors have resolved to recommend the payment of a final dividend of HK1 cent per share (2004: Nil) in respect of the year ended 31 March 2005 subject to the shareholders approval at the forthcoming Annual General Meeting to be held on 22 August 2005. The final dividend will be paid on 31 August 2005 to shareholders whose names appear on the register of members of the Company on 22 August 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 August 2005 to 22 August 2005, both days inclusive. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrars of the Company, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 12 August 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

During the year under review, the Group recorded a turnover of approximately HK\$156,383,000, representing a 32% decrease from last year's turnover of HK\$228,507,000. The profit attributable to shareholders for the year ended 31 March 2005 amounted to approximately HK\$7,004,000, representing a turnaround from last year's loss of HK\$4,355,000.

Business Review

The year under review was a challenging year for the Group. The Euro currency remained strong and reached its historical high record at the beginning of the financial year. As such, the Group was exposed to exchange rate fluctuation. Turnover of the Group was reported at approximately HK\$156,383,000 and net profitable attributable to shareholders was approximately HK\$7,004,000. The decrease in turnover was mainly due to the decrease in sales of yachts and trucks and engineering services and the decrease in trading basis. In addition, the warranty services for the major parts of the buses' components had expired which resulted in the decline for the engineering service income.

Although the turnover had dropped, the Group had a turnaround in its result from a loss in last year to a profit for the year under review. The significant increase in commission income as compared with last year had alleviated the impact of the increasing exchange rate in Euro and improved our margin. Thanks to the booming of property markets in Hong Kong and China during the year under review, a surplus on revaluation of HK\$3,119,000 and HK\$6,208,000 was credited to the consolidated income statement and dealt with in property revaluation reserves respectively.

During the year under review, the Group relocated its service centre from Fanling to Yuen Long as a measure to minimize the costs. The workshop at Fanling has leased out in order to enable the Group to have higher return and recurrent revenue from the rental income. Operating costs for the year ended 31 March 2005 totalled HK\$32,111,000, a decrease of 16% compared to HK\$38,249,000 for the previous year. This reflected the Group's efforts on reducing its overheads in order to maintain its competitive edge.

Moving Forward

In the coming year, the general business outlook for the Group is positive. The management believes that the best way to safeguard the Group's profitability is to further procure some new and recurrent income businesses.

For the year to come, the continuous economic progress in China market as well as the increasing demands for the railway maintenance equipment, the Group's management believes that the Group will benefit from the growth of economy. Driving on years of experience in the industry, the Group will continue introducing advanced and quality brands from overseas in order to keep abreast of the market development and trend. The Group will concentrate on trading of products with high profit margin. The Group will also consider various business opportunities in China and the Group is on the lookout for any business opportunities which can provide a stable income to the Group.

Appreciation

The Directors and management would like to express their gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated services to the Group during the year.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2005, the Group employed 101 (2004: 111) 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 remuneration packages are reviewed annually by the management.

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity

The Group had a solid balance sheet. As at 31 March 2005, cash and bank balances including pledged fixed deposits of the Group were HK\$76,133,000 (2004: HK\$70,441,000). The cash and bank balances consisted of about 50% in US dollars, 20% in Euro, 19% in Hong Kong dollars and 11% in other currencies.

As at 31 March 2005, the Group's total assets of approximately HK\$187,591,000 (2004: HK\$195,425,000) were financed by liabilities of approximately HK\$84,660,000 (2004: HK\$105,799,000) and shareholders' equity of approximately HK\$102,249,000 (2004: HK\$89,037,000). As at 31 March 2005, the current ratio was 1.82 (2004: 1.62), calculated on the basis of current assets of HK\$136,636,000 over current liabilities of HK\$74,942,000.

The Group's bank borrowings amounted to approximately HK\$32,644,000 (2004: HK\$24,161,000). The Group's borrowings, denominated in Hong Kong dollars, United States dollars and Euro, mainly comprise invoice financing loans and mortgage loans bearing floating interest rates. The Group's gearing ratio, based on the total borrowings to total assets, was 18% (2004: 13%).

Foreign exchange exposure and hedging

The Group mainly earns revenue in United States dollars, Renminbi and Hong Kong dollars while incurs costs 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. As at 31 March 2005, the Group had total outstanding forward foreign exchange contracts amounting to approximately HK\$11,547,000 (2004: HK\$45,063,000).

Pledge of assets

As at 31 March 2005, the Group's leasehold land and buildings and investment properties situated in Hong Kong with an aggregate net book value amounting to HK\$28,100,000 (2004: HK\$19,100,000) and bank deposits of HK\$6,143,000 (2004: HK\$10,885,000) were pledged with the banks to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

At 31 March 2005, 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\$2,435,000 (2004: HK\$830,000) and HK\$13,559,000 (2004: HK\$20,889,000) respectively.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SHARES

Neither the company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 March 2005.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

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") on The Stock Exchange of Hong Kong Limited ("SEHK"), throughout the year ended 31 March 2005 except that independent non-executive directors 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 Company's articles of association.

AUDIT COMMITTEE

The audit committee comprises three 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 2005.

PUBLICATION OF THE FINAL RESULTS ON THE WEBSITE OF THE SEHK

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 SEHK.

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 executive directors, Mr. Yin Jie as the non-executive director and Mr. Wong Man Chung, Francis, Mr. Chan Ting Kwong and Ms. Fung Siu Wan as independent non-executive directors.

By Order of the Board
Fong Kit Wah, Alan
Chairman and Managing Director