Notes on the financial statements

(Expressed in Hong Kong dollars)

1 REORGANISATION

Yardway Group Limited (the "Company") was incorporated in the Cayman Islands on 31 August 2001 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands as part of the reorganisation (the "Reorganisation") of the Company and its subsidiaries (collectively referred to as the "Group"). Pursuant to the Reorganisation, the Company became the holding company of the Group on 13 March 2002. The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. Directors are of the opinion that the annual financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

Further details of the Reorganisation are set out in the prospectus dated 19 March 2002 issued by the Company and the details of the subsidiaries acquired pursuant to the Reorganisation are set out in note 15 on the financial statements. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 28 March 2001.

2 BASIS OF PRESENTATION

The Group has been treated as a continuing entity, and accordingly, the consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from 13 March 2002. Accordingly, the consolidated results of the Group for the years ended 31 March 2001 and 2002 include the results of the Company and its subsidiaries with effect from 1 April 2000 or since their respective dates of incorporation, where there is a shorter period.

The consolidated balance sheet at 31 March 2001 is a combination of the balance sheets of the companies comprising the Group as at 31 March 2001.

The Company was incorporated on 31 August 2001. During the year ended 31 March 2001, the Company had not yet been set up and accordingly, no comparative figures are presented in respect of the Company's balance sheet at 31 March 2002.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Statement of compliance (Continued)

These financial statements also comply with the disclosure requirements of the Main Board Listing Rules of the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and land and buildings, and the marking to market of certain investments as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 March of each year prepared on the basis of presentation as described in note 2.

(d) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries (Continued)

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(e) Other investments

The Group's and the Company's policies for investments other than investments in subsidiaries are as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are stated in the balance sheet at cost less any impairment losses.

(ii) All other investments (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise.

(iii) Profits or losses on disposal of other investments are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(f) Fixed assets

(i) Fixed assets are carried in the balance sheets on the following bases:

- investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers;
- leasehold land and buildings are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date; and
- other fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Fixed assets (Continued)

(ii) Changes arising on the revaluation of investment properties and leasehold land and buildings are generally dealt with in reserves. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset, or, solely in the case of investment properties, the portfolio of investment properties, immediately prior to the revaluation; and

- when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of that same asset, or, solely in the case of investment properties, the portfolio of investment properties, had previously been charged to the income statement.

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficit previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year. For all other fixed assets, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Company or the Group will obtain ownership of the asset, the life of the asset. Impairment losses are accounted for in accordance with the accounting policy as set out below. Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out below. Impairment losses are accounted for in accordance with the accounting policy as set out below. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies.

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Depreciation

(i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years.

(ii) Depreciation is calculated to write off the cost or valuation of other fixed assets over their estimated useful lives at the following rates:

– leasehold land is depreciated on a straight-line basis over the remaining term of the lease;

– buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 50 years from the date of completion, and the unexpired terms of the leases; and

– other fixed assets are depreciated on a straight-line basis over their estimated useful lives at the following rates per annum:

Furniture, fixtures and equipment	20%
Motor vehicles	20%-30%

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– fixed assets other than investment properties;

– investments in subsidiaries; and

– other investments.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs at purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

(l) Deferred taxation

Deferred taxation is 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 are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Warranties

A provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Commission and service income

Commission and service income are recognised when services are rendered.

(iv) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

Where non-speculative forward foreign exchange contracts are used to hedge firm commitments or transactions in foreign currencies, the gain or loss and the discount or premium on the contracts are added to or deducted from the amount of the relevant transaction at the end of the commitment period.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Retirement costs

Contributions to the Mandatory Provident Fund are required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The Group's contributions to retirement benefit schemes are charged to the income statement as and when incurred.

(r) Borrowing costs

Borrowing costs are expensed in the income statement in the year in which they are incurred.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party to exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

4 TURNOVER

The principal activities of the Group are trading of vehicles, machinery, equipment, yachts and spare parts and provision of engineering services.

Turnover represents the sales value of goods supplied to customers, service income and commission income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2002	2001
	$'000	$'000
Sales of goods	**184,914**	122,238
Service income	**22,928**	14,731
Commission income	**18,301**	21,092
	226,143	158,061

5 OTHER REVENUE AND OTHER NET LOSS

	2002	2001
	$'000	$'000
Other revenue		
Gross rental income from investment properties	**269**	483
Interest income	**654**	1,106
Others	**153**	99
	1,076	1,688
Other net loss		
Exchange loss, net	**(963)**	(672)
Gain on sales of fixed assets	**5**	2
	(958)	(670)

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2002 **$'000**	2001 $'000
(a) Finance cost:		
Interest on bank borrowings repayable within five years	**966**	836
Interest on bank borrowings repayable after five years	**389**	577
Finance charges on obligations under finance leases	**25**	41
	1,380	1,454
(b) Other items:		
Cost of inventories	**150,139**	89,384
Staff costs		
– salaries and staff benefits	**24,283**	20,798
– retirement costs	**800**	226
Auditors' remuneration	**550**	260
Depreciation		
– owned fixed assets	**1,620**	1,211
– assets held for use under finance leases	**163**	183
Operating lease charges in respect of properties	**2,194**	2,720
Rentals receivable from investment properties less outgoings of $62,000 (2001: $59,000)	**(207)**	(424)
Average number of employees during the year	**127**	126

7 TAXATION

(a) Taxation in the consolidated income statement represents:

	2002 $'000	2001 $'000
Provision for Hong Kong Profits Tax for the year	**4,043**	4,510
Overprovision in respect of prior year	**(983)**	(223)
	3,060	4,287
Overseas taxation	**53**	37
Deferred taxation	**–**	(83)
	3,113	4,241

The provision for Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year ended 31 March 2002. Overseas taxation is charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) Taxation in the consolidated balance sheet represents:

	2002 $'000	2001 $'000
Provision for Hong Kong Profits Tax	**4,043**	4,510
Provisional Profits Tax paid	**(2,782)**	(814)
	1,261	3,696
Balance of Profits Tax provision relating to prior years	**–**	658
	1,261	4,354

(c) No provision for deferred taxation has been made in the financial statements as the effect of all timing differences is not material.

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2002 **$'000**	2001 $'000
Fees	**–**	–
Salaries and other emoluments	**2,723**	2,336
Bonus	**–**	–
Retirement scheme contributions	**47**	12
	2,770	2,348

Included in the directors' remuneration were allowances of $10,000 (2001: $Nil) paid to the independent non-executive directors during the year.

The number of directors whose remuneration falls within the following designated bands is set out below:

	2002 **Number of directors**	2001 Number of directors
$Nil – $1,000,000	**5**	4
$1,000,001 – $1,500,000	**1**	–
	6	4

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2001: two) are directors whose remuneration is disclosed in note 8. The aggregate of the emoluments in respect of the other three (2001: three) individuals are as follows:

	2002 $'000	2001 $'000
Salaries, allowances and other benefits	**2,308**	2,609
Retirement scheme contributions	**24**	7
	2,332	2,616

The emoluments of the three (2001: three) individuals falls within the following designated bands:

	2002 Number of individuals	2001 Number of individuals
$Nil – $1,000,000	**3**	2
$1,000,001 – $1,500,000	**–**	1
	3	3

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of $18,000 (2001: $Nil) which has been dealt with in the financial statements of the Company.

11 DIVIDENDS

	2002 $'000	2001 $'000
Interim and special dividends declared of $15,000,000 (2001: $34,000,000)	**15,000**	34,000
Final dividend proposed after the balance sheet date of $0.01 per share (2001: $Nil)	**2,800**	–
	17,800	34,000

11 DIVIDENDS (Continued)

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

The dividends of $15,000,000 (2001: $34,000,000) declared by a subsidiary of the Group to its then shareholder prior to the Reorganisation have been partially paid and the remaining balance of $6,000,000 (2001: $Nil) was recorded as dividend payable in the consolidated balance sheet at 31 March 2002.

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 March 2002 is based on the consolidated profit attributable to shareholders of $25,664,000 divided by the weighted average number of 196,920,548 shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 March 2001 is based on the consolidated profit attributable to shareholders of $24,526,000 divided by 196,000,000 shares in issue (immediately prior to the share offer but after the capitalisation issue, as set out in the subsection headed "Written resolutions passed by all the shareholders of the Company" in Appendix IV to the Prospectus), as if the shares had been issued since 1 April 2000.

(b) Diluted earnings per share

No diluted earnings per share is presented as there are no dilutive potential shares.

13 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting:

Business segments

The Group comprises the following main business segments:

Sales and distribution activities

– The trading of airport ground support equipment, railway maintenance equipment, coaches and trucks and yachts.

13 SEGMENT REPORTING (Continued)

Business segments (Continued)

Provision of engineering services and sales of spare parts

– The provision of engineering services and sales of spare parts.

	Sales and distribution		Provision of engineering services and sales of spare parts		Consolidated	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000	**2002 $'000**	2001 $'000
Revenue from customers	**187,868**	128,511	**38,275**	29,550	**226,143**	158,061
Unallocated other revenue	**–**	–	**–**	–	**1,076**	1,688
Total	**187,868**	128,511	**38,275**	29,550	**227,219**	159,749
Segment results						
Contribution from operations	**33,765**	27,055	**3,302**	4,878	**37,067**	31,933
Unallocated operating income and expenses					**(6,910)**	(1,717)
Profit from operations					**30,157**	30,216
Finance cost					**(1,380)**	(1,454)
Taxation					**(3,113)**	(4,241)
Minority interests					**–**	5
Profit attributable to shareholders					**25,664**	24,526
Depreciation for the year	**419**	253	**438**	92		
Segment assets	**114,599**	82,568	**27,964**	10,916	**142,563**	93,484
Unallocated assets					**63,721**	29,238
Total assets					**206,284**	122,722
Segment liabilities	**83,883**	52,776	**5,517**	2,979	**89,400**	55,755
Unallocated liabilities					**26,093**	18,368
Total liabilities					**115,493**	74,123
Capital expenditure incurred during the year	**505**	1,203	**626**	230		

13 SEGMENT REPORTING (Continued)

Geographical segments

The Group's business is managed on a worldwide basis, but participates in three principal economic environments. Hong Kong and the PRC are the major markets for the Group's businesses.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		The PRC		The United States of America		Others	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000	**2002 $'000**	2001 $'000	**2002 $'000**	2001 $'000
Revenue from customers	**56,951**	68,341	**143,824**	65,056	**20,342**	23,039	**5,026**	1,625
Profit/(loss) from operations	**6,068**	18,945	**22,596**	11,862	**1,290**	(628)	**203**	37
Segment assets	**142,563**	93,484	**–**	–	**–**	–	**–**	–
Capital expenditure incurred during the year	**1,131**	1,433	**–**	–	**–**	–	**–**	–

14 FIXED ASSETS

(a) The Group

	Leasehold land and buildings $'000	Furniture, fixtures and equipment $'000	Motor vehicles $'000	Subtotal $'000	Investment properties $'000	Total $'000
Cost or valuation:						
At 1 April 2001	16,312	5,885	1,336	23,533	8,499	32,032
Additions	–	1,845	190	2,035	–	2,035
Disposals	–	(54)	–	(54)	–	(54)
Reclassification	4,246	–	–	4,246	(4,246)	–
Deficit on revaluation	(3,288)	–	–	(3,288)	(553)	(3,841)
At 31 March 2002	17,270	7,676	1,526	26,472	3,700	30,172
Representing:						
Cost	–	7,676	1,526	9,202	–	9,202
Valuation – 2002	17,270	–	–	17,270	3,700	20,970
	17,270	7,676	1,526	26,472	3,700	30,172
Aggregate depreciation:						
At 1 April 2001	471	2,891	730	4,092	–	4,092
Charge for the year	369	1,079	335	1,783	–	1,783
Written back on disposals	–	(47)	–	(47)	–	(47)
Written back on revaluation	(840)	–	–	(840)	–	(840)
At 31 March 2002	–	3,923	1,065	4,988	–	4,988
Net book value:						
At 31 March 2002	17,270	3,753	461	21,484	3,700	25,184
At 31 March 2001	15,841	2,994	606	19,441	8,499	27,940

14 FIXED ASSETS (Continued)

(b) The analysis of net book value of properties is as follows:

	2002 $'000	2001 $'000
Hong Kong		
– medium term leases	**8,900**	9,204
The PRC		
– long term leases	**8,370**	10,883
– medium term leases	**3,700**	4,253
	20,970	24,340

(c) The Group's investment properties and leasehold land and buildings were revalued at 31 March 2002 by an independent firm of surveyors, Sallmanns (Far East) Limited who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis calculated by reference to market price of recent sales transactions in the relevant market. The respective revaluation deficit of $553,000 and $2,448,000 for the Group's investment properties and leasehold land and buildings have been charged to the consolidated income statement during the year.

The carrying amount of the leasehold land and buildings of the Group at 31 March 2002 would have been $19,718,000 (2001: $15,841,000) had they been carried at cost less accumulated depreciation.

(d) The Group leases certain fixed assets under finance leases expiring from one to four years. At the end of the lease term the Group has an option to purchase the fixed assets at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

At 31 March 2002, the net book value of motor vehicles and equipment of the Group held under finance leases was $172,000 (2001: $368,000) and $34,000 (2001: $Nil) respectively.

14 FIXED ASSETS (Continued)

(e) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to two years with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

At 31 March 2002, the gross carrying amounts of investment properties of the Group held for use in operating leases were $3,700,000 (2001: $8,499,000).

At 31 March 2002, the Group was still in the process of obtaining the relevant legal property certificates of investment properties in the PRC amounted to $3,700,000 (2001: $4,617,000). Based on the advice from the Group's PRC lawyers, the directors are of the opinion that the Group will be able to obtain proper legal ownership documents of these properties.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2002 $'000	2001 $'000
Within 1 year	**165**	174
After 1 year but within 5 years	**165**	–
	330	174

15 INTERESTS IN SUBSIDIARIES

	The Company 2002 $'000
Unlisted shares, at cost	**69,263**
Amounts due from subsidiaries	**28,452**
	97,715

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(Expressed in Hong Kong dollars)

15 INTERESTS IN SUBSIDIARIES (Continued)

The following list contains the particulars of the subsidiaries which affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activity
Yardway Development Limited	British Virgin Islands ("BVI")	US$10,000	100%	–	Investment holding
Yardway Limited	Hong Kong	$10,110 (divided into 10 ordinary shares and 10,100 non-voting deferred shares# of $1 each)	–	100%	Trading of vehicles, machinery and parts and provision of engineering services
Yardway Motors Limited ("Yardway Motors")	Hong Kong	$10,000	–	100%	Trading of motor vehicles and spare parts and provision of services
Yardway Equipment Limited ("Yardway Equipment")	Hong Kong	$10,000	–	100%	Trading of construction equipment and spare parts and provision of services
Yardway Marine Limited ("Yardway Marine")	Hong Kong	$10,000	–	51%	Trading of yachts and spare parts
Prosperity Resources Limited ("Prosperity")	BVI	US$1	–	100%	Dormant

In accordance with Articles of Association of Yardway Limited, holders of non-voting deferred shares are entitled to share profit of the Company when the profit exceeds $1,000,000 million in any financial year.

16 INVENTORIES

	The Group	
	2002	2001
	$'000	$'000
Work in progress	**136**	1,314
Finished goods	**14,682**	14,466
	14,818	15,780

All inventories are stated at cost.

17 ACCOUNTS AND BILLS RECEIVABLE

Debts are due within 30 to 90 days from the date of billing. The ageing analysis of accounts receivable is as follows:

	The Group	
	2002	2001
	$'000	$'000
Accounts receivable		
– within 30 days	**49,884**	21,829
– between 31 to 90 days	**7,908**	11,960
– between 91 days to 365 days	**10,276**	7,552
– over 365 days	**822**	103
	68,890	41,444
Bills receivable	**2,109**	9,027
	70,999	50,471

(Expressed in Hong Kong dollars)

18 BANK LOANS AND OVERDRAFT

At 31 March 2002, the bank loans and overdraft were repayable as follows:

	The Group	
	2002	2001
	$'000	$'000
Within 1 year or on demand	**29,116**	11,586
After 1 year but within 2 years	**222**	159
After 2 years but within 5 years	**738**	561
After 5 years	**4,810**	5,296
	5,770	6,016
	34,886	17,602

At 31 March 2002, the bank loans and overdraft were secured as follows:

	The Group	
	2002	2001
	$'000	$'000
Bank overdraft		
– secured	**9,929**	6,390
Bank loans		
– secured	**19,310**	11,212
– unsecured	**5,647**	–
	24,957	11,212
	34,886	17,602

18 BANK LOANS AND OVERDRAFT (Continued)

As at 31 March 2002, the bank loans and overdraft were secured as follows:

(i) Investment properties and leasehold land and buildings with carrying value of $8,900,000 (2001: $17,194,000);

(ii) Pledges over bank deposits totalling to $15,655,000 (2001: $10,812,000);

(iii) Personal guarantees issued by Fong Kit Wah, Alan ("Alan Fong"), and Halvorsen Harvey, a director of the Company and a subsidiary, respectively with an aggregate amount of $162,400,000 (2001: $106,400,000); and

(iv) Pledges over personal bank deposits of Alan Fong and Mui Suet Wah, Connie, a director of certain subsidiaries of the Company.

Subsequent to the balance sheet date, all the personal guarantees and pledges over personal bank deposits stated above to secure the Group's banking facilities have been released and replaced by corporate guarantees of the Company.

19 OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2002, the Group had obligations under finance leases repayable as follows:

		The Group 2002	
	Present value of the minimum lease payments $'000	**Interest expense relating to future periods $'000**	**Total minimum lease payments $'000**
Within 1 year	**200**	**8**	**208**
After 1 year but within 2 years	**15**	**1**	**16**
After 2 years but within 5 years	**1**	**–**	**1**
	16	**1**	**17**
	216	**9**	**225**

19 OBLIGATIONS UNDER FINANCE LEASES (Continued)

	The Group 2001		
	Present value of the minimum lease payments $'000	Interest expense relating to future periods $'000	Total minimum lease payments $'000
Within 1 year	185	24	209
After 1 year but within 2 years	190	8	198
After 2 years but within 5 years	5	–	5
	195	8	203
	380	32	412

20 ACCOUNTS AND BILLS PAYABLE

Ageing analysis of accounts payable is as follows:

	The Group	
	2002 $'000	2001 $'000
Accounts payable		
– due within 1 month or on demand	**41,567**	9,316
– due after 1 month but within 3 months	**6,565**	3,106
– due after 3 months but within 6 months	**1,035**	6,842
– due after 6 months but within 1 year	**2,252**	–
	51,419	19,264
Bills payable	**14,363**	8,985
	65,782	28,249

21 PROVISION FOR WARRANTIES

	The Group $'000
At 1 April 2001	161
Additional provisions made	123
Provisions used	(96)
Provisions unused and reversed during the year	(71)
At 31 March 2002	117

The provision for warranties relates mainly to products sold which is calculated based on estimates made from historical warranty data associated with similar products and services.

22 RETIREMENT BENEFITS SCHEME

Since 1 December 2000, the Company's subsidiaries are required to join the Mandatory Provident Fund (the "MPF"), managed by an independent approved MPF trustee, under the requirements of the Hong Kong Mandatory Provident Fund Schemes Ordinance.

A Mandatory Provident Fund Scheme (the "MPF Scheme") has been set up by the Group for this purpose and employer's contributions are made under the MPF Scheme. Contributions are made based on 5% of each employee's salary subject to a cap of monthly salary of $20,000, and are charged to the income statement as they became payable in accordance with the rules of the MPF Scheme.

23 SHARE CAPITAL

	2002		2001	
	Number of shares ('000)	**Amount $'000**	Number of shares ('000)	Amount $'000
Authorised:				
Ordinary shares of $0.1 each (note (d))	**2,000,000**	**200,000**	–	–
Ordinary shares of $1 each (note (a))	**–**	**–**	11	11
Non-voting deferred shares of $1 each (note (a))	**–**	**–**	10	10
Ordinary shares of US$1 each (note (a))	**–**	**–**	50	390
Issued and fully paid:				
At 1 April (note (a))	**20**	**20**	20	20
Capital eliminated on consolidation	**(20)**	**(20)**	–	–
Issuance of shares (notes (b) and (c))	**2,000**	**200**	–	–
Capitalisation issue (note (e))	**194,000**	**19,400**	–	–
Issuance of shares for cash (note (f))	**84,000**	**8,400**	–	–
	280,000	**28,000**	20	20

23 SHARE CAPITAL (Continued)

(a) The authorised and issued share capital on the balance sheet at 31 March 2001 represents the combined share capital of the companies comprising the Group as at 31 March 2001.

(b) The Company was incorporated in the Cayman Islands under the Companies Law (Revised) as an exempted company with limited liability on 31 August 2001 with authorised share capital of $200,000 divided into 2,000,000 shares, one of which was allotted and issued nil paid on that date (which share was then transferred at nil consideration to Yardway Holdings Limited on 20 September 2001). 999,999 shares were allotted and issued nil paid to Yardway Holdings Limited on 20 September 2001. All these 1,000,000 nil paid shares were subsequently paid up in the manner described in (c) below.

(c) On 13 March 2002, in consideration of the acquisition of the entire share capital of Yardway Development Limited, the Company (i) allotted and issued, credited as fully paid at par, an aggregate of 1,000,000 new shares of which 750,000 shares to Speedway Investment Holding Limited ("Speedway") and 250,000 shares to Goodwell Group Invest Limited ("Goodwell"), respectively as instructed by Yardway Holdings Ltd, and (ii) credited as fully paid at par the 1,000,000 nil paid shares held by Yardway Holdings Ltd. Immediately following the paying up of the 1,000,000 nil paid shares as mentioned in (ii) above, Yardway Holdings Ltd transferred 750,000 shares and 250,000 shares to Speedway and Goodwell, respectively by way of distribution in specie.

(d) Pursuant to the written resolution passed by all the shareholders of the Company on 13 March 2002, the authorised share capital of the Company was increased to $200 million by the creation of additional 1,998 million shares.

(e) Pursuant to resolutions in writing passed by all shareholders of the Company on 13 March 2002, conditional on the share premium account of the Company being credited as a result of the new issue of shares, 194,000,000 shares were allotted and issued, by way of capitalisation of the sum of $19,400,000 standing to the credit of premium account of the Company credited as fully paid at par to holders of shares on the register of shareholders at the close of business on 13 March 2002 (or as they may direct) in proportion as nearly as may be to their respective shareholdings in the Company.

(f) On 28 March 2002, 84,000,000 new shares of $0.1 each were issued and offered for subscription at a price of $0.5 per share upon the listing of the Company's shares on the Main Board of the Stock Exchange. The Group raised $31,528,000 net of related expenses from the issue.

(g) All the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

24 RESERVES

(a) The Group

	Share premium $'000	Capital reserve $'000	Contributed surplus $'000	Retained profits $'000	Total $'000
At 1 April 2000	–	–	–	62,718	62,718
Write-off of goodwill arising from acquisition of subsidiary	–	(4,665)	–	–	(4,665)
Profit for the year	–	–	–	24,526	24,526
Dividends declared in respect of the year (note 11)	–	–	–	(34,000)	(34,000)
At 31 March 2001	–	(4,665)	–	53,244	48,579
At 1 April 2001	–	(4,665)	–	53,244	48,579
Arising from the Reorganisation	–	–	(180)	–	(180)
Premium arising from the public offer and placing of shares (note 23(f))	33,600	–	–	–	33,600
Capitalisation issue of shares (note 23(e))	(19,400)	–	–	–	(19,400)
Share issue expenses	(10,472)	–	–	–	(10,472)
Profit for the year	–	–	–	25,664	25,664
Dividends declared in respect of the year (note 11)	–	–	–	(15,000)	(15,000)
At 31 March 2002	3,728	(4,665)	(180)	63,908	62,791

24 RESERVES (Continued)

(b) The Company

	Share premium $'000	Contributed surplus $'000	Retained profits $'000	Total $'000
At 1 April 2001	–	–	–	–
Arising from the Reorganisation	–	69,063	–	69,063
Premium arising from the public offer and placing of shares (note 23(f))	33,600	–	–	33,600
Capitalisation issue of shares (note 23(e))	(19,400)	–	–	(19,400)
Share issue expenses	(10,472)	–	–	(10,472)
Loss for the period		–	(18)	(18)
At 31 March 2002	3,728	69,063	(18)	72,773

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Pursuant to the Reorganisation, the Company became the holding company of the Group on 13 March 2002. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation during the year was transferred to contributed surplus.

As at 31 March 2002, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted $72,773,000, subject to the restriction stated above.

The Company was incorporated on 31 August 2001 and has not carried out any business since the date of its incorporation save for the transaction related to the Reorganisation. Accordingly, there was no reserve for distribution to shareholders as at 31 March 2001.

(Expressed in Hong Kong dollars)

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operations to net cash inflow from operating activities

	2002 $'000	2001 $'000
Profit from operations	**30,157**	30,216
Interest income	**(654)**	(1,106)
Depreciation	**1,783**	1,394
Gain on sales of fixed assets	**(5)**	(2)
Deficit on revaluation of investment properties and leasehold land and buildings	**3,001**	–
Decrease/(increase) in inventories	**962**	(5,585)
Increase in accounts and bills receivable	**(20,528)**	(15,051)
(Increase)/decrease in prepayments, deposits and other receivables	**(11,054)**	1,851
Decrease in amounts due from related companies	**4,316**	14,841
Increase in amount due from a director	**–**	(1,823)
Increase in accounts and bills payable	**37,533**	9,401
(Decrease)/increase in deposits, other payables and accrued charges	**(11,106)**	5,917
Decrease in provision for warranties	**(44)**	(385)
Decrease in amount due to a director	**–**	(853)
(Decrease)/increase in amount due to the then shareholder	**(364)**	339
Decrease in amounts due to related companies	**(4,676)**	(826)
Net cash inflow from operating activities	**29,321**	38,328

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing

	Share capital (including share premium) $'000	Bank loans $'000	Obligations under finance leases $'000
At 1 April 2000	–	8,993	349
Cash flow from financing	–	(2,602)	(158)
Inception of finance lease contracts	–	–	189
At 31 March 2001	–	6,391	380
At 1 April 2001	–	6,391	380
Cash flow from financing	31,528	4,230	(205)
Inception of finance lease contracts	–	–	41
Shares issued for acquisition of subsidiaries	200	–	–
At 31 March 2002	31,728	10,621	216

The Group raised approximately $31,528,000 (net of related expenses) from placing and public offer of shares upon listing on the Main Board of the Stock Exchange.

(c) Major non-cash transaction

During the year, the Group disposed of the other investment to Fong Kit Wah, Alan, a director at a consideration of $1,823,000 which is based on the carrying value of the investment. The amount was settled through the current account with the director.

26 COMMITMENTS

Lease commitments

At 31 March 2002, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2002	2001
	$'000	$'000
Within 1 year	**703**	2,452
After 1 year but within 5 years	**96**	892
	799	3,344

The Company leases a number of properties 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.

27 OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Group has employed off-balance sheet derivative instruments such as foreign exchange forwards to manage its foreign exchange exposure. These instruments are used solely to reduce or eliminate the financial risk associated with the Group's assets and liabilities and not for trading or speculation purposes.

The contracted notional amounts of derivative instruments outstanding at 31 March 2002 are as follows:

	2002	2001
	$'000	$'000
Foreign exchange forwards maturing in less than 1 year		
– sales	**9,472**	30,383
– purchases	**2,018**	20,646

There are four main categories of risk related to using derivative instruments, namely market risk, credit risk, operational risk and legal risk. Since the Group employs derivative instruments purely for hedging purposes, it is not exposed to market risk because any change in market values will be offset by an opposite change in the market values of the underlying assets and liabilities being hedged.

27 OFF-BALANCE SHEET FINANCIAL INSTRUMENTS (Continued)

The Group manages credit risk by assigning limits to counter-parties and by dealing only with financial institutions with acceptable credit ratings. The Group further monitors its credit exposure by estimating the fair market values plus any potential adverse movement in the values of the derivative instruments employed. The Group has not experienced non-performance by any counter-party.

The Group has internal control measures to safeguard compliance with policies and procedures to minimise operational risk. Standardised or master agreements are used whenever practicable to reduce legal risk and credit exposure.

28 CONTINGENT LIABILITIES

At 31 March 2002, the Group has given guarantees in favour of third parties (representing customers and potential customers) for performing duties and quality assurance amounting to $2,196,000 (2001: $1,373,000) and $14,292,000 (2001: $14,048,000), respectively.

29 RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties:

	Note	**2002 $'000**	2001 $'000
Disposal of other investment	(i)	**1,823**	–
Sales of goods	(ii)	**1,687**	3,706

Notes:

(i) The Group disposed of its other investment to Fong Kit Wah, Alan, a director of the Company at a consideration of $1,823,000 which is based on the carrying value of the investment pursuant to the Reorganisation.

(ii) The Group sold spare parts to Langfang Yardway Machinery and Equipment Limited which is controlled by Fong Kit Wah, Alan under similar terms as it traded with independent third party customers. Upon listing of the Company on 28 March 2002, the Group discontinued transactions with the related party.

30 POST BALANCE SHEET EVENT

On 3 June 2002, a wholly-owned subsidiary of the Company entered into an agreement to purchase a leasehold property in Hong Kong from an independent third party for its operational use at a consideration of $10,000,000.