Notes on the financial statements

(Expressed in Hong Kong dollars)

1 BACKGROUND

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. The directors are of the opinion that the financial statements for the year ended 31 March 2002 prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole. 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 year ended 31 March 2002 include the results of the Company and its subsidiaries with effect from 1 April 2001 or since their respective dates of incorporation, where there is a shorter period.

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.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on 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 leasehold land and buildings as explained in the accounting policies set out below.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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. All material intra-group transactions and balances are eliminated on consolidation.

(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 controlled 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.

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) Associates

An associate is an entity in which the Group or the Company has significant influence but not control or joint control, over its management, including participation in the financial and operating policy decisions.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates (Continued)

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associate for the year.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate.

In the Company's balance sheet, its investment in an associate is stated at cost less 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 that significantly impair its ability to transfer funds to the investor or venturer, in which case, it is stated at fair value with changes in fair value recognised 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.

(g) Construction in progress

Construction in progress is stated at cost less impairment losses. Construction in progress is transferred to fixed assets when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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 as set out below. 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.

(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 as set out below.

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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%

(j) 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 properties carried at revalued amounts; and

- investments in subsidiaries and an associate.

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)

(j) 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.

(k) 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 of 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)

(l) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(m) Employee benefits

(i) Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

(iii) Contributions to the defined contribution plan of the subsidiary in the People's Republic of China ("PRC") are recognised as an expense in the income statement when the contributions become due in accordance with the terms of the plan.

(iv) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(n) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) 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.

(p) 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.

(q) 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 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue recognition (Continued)

(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.

(r) 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.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet item are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(s) Borrowing costs

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

(t) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) 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 system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purpose of these financial statements.

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. For example, segment assets may include inventories, account receivables and fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation 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 period 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:

	2003	2002
	$'000	$'000
Sales of goods	**159,734**	184,914
Service income	**28,136**	22,928
Commission income	**12,012**	18,301
	199,882	226,143

5 OTHER REVENUE AND OTHER NET INCOME/(LOSS)

	2003	2002
	$'000	$'000
Other revenue		
Gross rental income from investment properties	**133**	269
Interest income	**399**	654
Others	**412**	153
	944	1,076
Other net income/(loss)		
Exchange gain/(loss), net	**998**	(963)
(Loss)/gain on disposal of fixed assets	**(430)**	5
	568	(958)

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

		2003 $'000	2002 $'000
(a)	**Finance costs:**		
	Interest on bank advances and bank borrowings repayable within five years	**1,220**	966
	Interest on bank advances and bank borrowings repayable after five years	**293**	389
	Finance charges on obligations under finance leases	**28**	25
		1,541	1,380
(b)	**Staff costs:**		
	Contribution to defined contribution plans	**891**	800
	Salaries, wages and other benefits	**27,106**	24,283
		27,997	25,083
	Average number of employees during the year	**128**	127
(c)	**Other items:**		
	Cost of inventories	**139,509**	150,139
	Increase in provision for warranties	**156**	123
	Auditors' remuneration	**635**	550
	Depreciation		
	– owned fixed assets	**1,688**	1,620
	– assets held for use under finance leases	**239**	163
	Operating lease charges in respect of properties	**2,160**	2,194
	Rentals receivable from investment properties less outgoings of $4,000 (2002: $62,000)	**(129)**	(207)

7 TAXATION

(a) Taxation in the consolidated income statement represents:

	2003	2002
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**1,450**	4,043
Overprovision in respect of prior year	**(309)**	(983)
	1,141	3,060
PRC taxation	**54**	53
	1,195	3,113

The provision for Hong Kong Profits Tax is calculated at 16% (2002: 16%) of the estimated assessable profits for the year ended 31 March 2003. PRC taxation is charged at the appropriate current rates of taxation ruling in the PRC.

(b) Taxation in the consolidated balance sheet represents:

	2003	2002
	$'000	$'000
Provision for Hong Kong Profits Tax	**1,450**	4,043
Provisional Profits Tax paid	**(2,818)**	(2,782)
	(1,368)	1,261

(c) The potential deferred tax asset of approximately $1,491,000 (2002: $Nil) relating to the future benefits of tax losses has not been recognised in the financial statements as its realisation is not assured beyond reasonable doubt.

8 DIRECTORS' REMUNERATION

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

	2003 **$'000**	2002 $'000
Fees	**–**	–
Salaries and other emoluments	**3,228**	2,723
Discretionary bonus	**–**	–
Retirement scheme contributions	**48**	47
	3,276	2,770

Included in the directors' remuneration were allowances of $120,000 (2002: $10,000) paid to the independent non-executive directors during the year.

The remuneration of the directors is within the following bands:

	2003 **Number of directors**	2002 Number of directors
$Nil – $1,000,000	**6**	5
$1,000,001 – $1,500,000	**1**	1
	7	6

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2002: two) are directors whose remuneration is disclosed in note 8. The aggregate of the emoluments in respect of the other three (2002: three) individuals are as follows:

	2003	2002
	$'000	$'000
Salaries, allowances and other benefits	**2,219**	2,308
Retirement scheme contributions	**24**	24
	2,243	2,332

The emoluments of the three (2002: three) individuals with the highest emoluments are within the following bands:

	2003 Number of individuals	2002 Number of individuals
$Nil – $1,000,000	**3**	3

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a profit of $2,978,000 (2002: loss $18,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2003	2002
	$'000	$'000
Amount of consolidated profit/(loss) attributable to shareholders dealt with in the Company's financial statements	**2,978**	(18)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**2,800**	–
Company's profit/(loss) for the year (note 28)	**5,778**	(18)

11 DIVIDENDS

(a) Dividends attributable to the year

	2003 **$'000**	2002 $'000
Interim and special dividends declared of $Nil (2002: $15,000,000)	**–**	15,000
Final dividend proposed after the balance sheet date of 1 cent per share (2002: 1 cent per share)	**2,800**	2,800
	2,800	17,800

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

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2003 **$'000**	2002 $'000
Final dividend in respect of the previous financial year, approved and paid during the year of 1 cent per share (2002: $Nil)	**2,800**	–

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of $8,082,000 (2002: $25,664,000) divided by the weighted average number of 280,000,000 shares (2002: 196,920,548 shares) in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for the year ended 31 March 2003 is not shown as all the potential ordinary shares are anti-dilutive.

No diluted earnings per share for the year ended 31 March 2002 is presented as there were 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.

Provision of engineering services and sales of spare parts

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

(Expressed in Hong Kong dollars)

13 SEGMENT REPORTING (Continued)

Business segments (Continued)

	Sales and distribution		Provision of engineering services and sales of spare parts		Unallocated		Consolidated	
	2003 $'000	2002 $'000	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000
Revenue from customers	**152,891**	187,868	**46,991**	38,275	**–**	–	**199,882**	226,143
Unallocated other revenue	**–**	–	**–**	–	**944**	1,076	**944**	1,076
Total	**152,891**	187,868	**46,991**	38,275	**944**	1,076	**200,826**	227,219
Segment results								
Contribution from operations	**12,904**	33,765	**2,204**	3,302			**15,108**	37,067
Unallocated operating income and expenses							**(4,290)**	(6,910)
Profit from operations							**10,818**	30,157
Finance costs							**(1,541)**	(1,380)
Taxation							**(1,195)**	(3,113)
Profit attributable to shareholders							**8,082**	25,664
Depreciation for the year	**544**	419	**389**	438	**994**	926		
Segment assets	**132,211**	114,599	**31,308**	27,964			**163,519**	142,563
Unallocated assets							**48,499**	63,721
Total assets							**212,018**	206,284
Segment liabilities	**83,505**	83,883	**12,644**	5,517			**96,149**	89,400
Unallocated liabilities							**19,796**	26,093
Total liabilities							**115,945**	115,493
Capital expenditure incurred during the year	**3,106**	505	**10,708**	626	**2,708**	863		

13 SEGMENT REPORTING (Continued)

Geographical segments

The Group's business is managed on a worldwide basis, but participates in three principal economic environments.

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	
	2003 $'000	2002 $'000	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000	**2003 $'000**	2002 $'000
Revenue from customers	**61,489**	56,951	**127,671**	143,824	**8,666**	20,342	**2,056**	5,026
(Loss)/profit from operations	**(20)**	6,068	**11,175**	22,596	**(1,298)**	1,290	**961**	203
Segment assets	**158,463**	142,563	**5,056**	–	**–**	–	**–**	–
Capital expenditure incurred during the year	**14,156**	1,994	**2,366**	–	**–**	–	**–**	–

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 2002	17,270	7,676	1,526	26,472	3,700	30,172
Additions	10,464	2,739	953	14,156	–	14,156
Disposals	–	(1,785)	(729)	(2,514)	–	(2,514)
Deficit on revaluation	(2,003)	–	–	(2,003)	–	(2,003)
At 31 March 2003	25,731	8,630	1,750	36,111	3,700	39,811
Representing:						
Cost	–	8,630	1,750	10,380	–	10,380
Valuation – 2003	25,731	–	–	25,731	3,700	29,431
	25,731	8,630	1,750	36,111	3,700	39,811
Aggregate depreciation:						
At 1 April 2002	–	3,923	1,065	4,988	–	4,988
Charge for the year	398	1,148	381	1,927	–	1,927
Written back on disposals	–	(973)	(608)	(1,581)	–	(1,581)
Written back on revaluation	(398)	–	–	(398)	–	(398)
At 31 March 2003	–	4,098	838	4,936	–	4,936
Net book value:						
At 31 March 2003	25,731	4,532	912	31,175	3,700	34,875
At 31 March 2002	17,270	3,753	461	21,484	3,700	25,184

14 FIXED ASSETS (Continued)

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

	2003 $'000	2002 $'000
Hong Kong		
– medium term leases	**18,861**	8,900
The PRC		
– long term leases	**6,870**	8,370
– medium term leases	**3,700**	3,700
	29,431	20,970

(c) The Group's leasehold land and buildings and investment properties were revalued at 31 March 2003 by two independent firms of surveyors, Sallmanns (Far East) Limited and Chesterton Petty Limited, respectively 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 markets. The respective revaluation deficit of $1,605,000 (2002: $2,448,000) and $Nil (2002: $553,000) for the Group's leasehold land and buildings and investment properties 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 2003 would have been $29,718,000 (2002: $19,718,000) 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 2003, the net book value of motor vehicles and equipment of the Group held under finance leases was $739,000 (2002: $172,000) and $25,000 (2002: $34,000), 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 2003, the gross carrying amounts of investment properties of the Group held for use in operating leases were $3,700,000 (2002: $3,700,000).

At 31 March 2003, 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 (2002: $3,700,000). 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:

	2003 **$'000**	2002 $'000
Within 1 year	**132**	165
After 1 year but within 5 years	**–**	165
	132	330

15 CONSTRUCTION IN PROGRESS

	The Group	
	2003 **$'000**	2002 $'000
At 1 April	**–**	–
Additions	**2,366**	–
At 31 March	**2,366**	–

Construction in progress as at 31 March 2003 represents machineries under installation.

16 INTEREST IN ASSOCIATE

	The Group	
	2003	2002
	$'000	$'000
Share of net assets	**–**	–
Loan due from associate (Note 29(b))	**4,073**	–
	4,073	–

(a) Loan due from associate

The amount due from associate is unsecured and interest-free, and has no fixed terms of repayment.

(b) Details of the associate are as follows:

Name	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activity
Sinowin Universal Ltd.	British Virgin Islands ("BVI")/ Hong Kong	US$10	–	20%	Investment holding

Note: Sinowin Universal Ltd. holds a 50% equity interest in Best Link Development Ltd., a company incorporated in Hong Kong which is engaged in property investment in Hong Kong.

17 INTERESTS IN SUBSIDIARIES

	The Company	
	2003	2002
	$'000	$'000
Unlisted investments, at cost (Note a)	**59,263**	69,263
Amounts due from subsidiaries	**34,787**	28,452
	94,050	97,715

(Expressed in Hong Kong dollars)

17 INTERESTS IN SUBSIDIARIES (Continued)

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

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.

All of these controlled subsidiaries as defined under note 3(d) have been consolidated into the Group financial statements.

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activity
Yardway Development Limited	BVI/Hong Kong	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) (Note b)	–	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

17 INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activity
Yardway Marine Limited ("Yardway Marine")	Hong Kong	$10,000	–	51%	Trading of yachts and spare parts
Yardway Logistics Equipment (Zhuhai) Company Limited ("Yardway Zhuhai")	PRC	$2,699,478 (Note c)	–	100%	Manufacture and sales of transportation and logistics related equipment

Notes:

(a) A special dividend of $10,000,000 payable to the then shareholder of a subsidiary prior to the Reorganisation was fully settled during the year. This represented a return of investment to that shareholder, accordingly it is set off against the cost of investments in subsidiaries.

(b) 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.

(c) This represents the paid up capital of Yardway Zhuhai, a wholly foreign owned enterprise established in Zhuhai, PRC on 31 March 2003. The registered capital of Yardway Zhuhai is $10,000,000.

18 INVENTORIES

	The Group	
	2003	2002
	$'000	$'000
Work in progress	**34**	136
Finished goods	**14,544**	14,682
	14,578	14,818

None of the inventories is stated at net realisable value.

19 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	
	2003	2002
	$'000	$'000
Accounts receivable		
– current	**50,451**	57,668
– 1 to 3 months overdue	**13,764**	3,427
– more than 3 months overdue but less than 12 months overdue	**10,916**	7,448
– more than 12 months overdue	**1,429**	347
	76,560	68,890
Bills receivable	**26,924**	2,109
	103,484	70,999

20 CASH AND CASH EQUIVALENTS

	The Group	
	2003	2002
	$'000	$'000
Cash at bank and in hand	**21,937**	62,827
Bank overdrafts (note 21)	**(3,378)**	(9,929)
Cash and cash equivalents in the cash flow statement	**18,559**	52,898

21 BANK LOANS AND OVERDRAFTS

At 31 March 2003, the bank loans and overdraft were repayable as follows:

	The Group	
	2003	2002
	$'000	$'000
Within 1 year or on demand	**32,001**	29,116
After 1 year but within 2 years	**999**	222
After 2 years but within 5 years	**3,039**	738
After 5 years	**5,494**	4,810
	9,532	5,770
	41,533	34,886

At 31 March 2003, the bank loans and overdraft were secured as follows:

	The Group	
	2003	2002
	$'000	$'000
Bank loans		
– secured	**28,392**	19,310
– unsecured	**9,763**	5,647
	38,155	24,957
Bank overdrafts		
– secured	**2,405**	9,929
– unsecured	**973**	–
	3,378	9,929
	41,533	34,886

21 BANK LOANS AND OVERDRAFTS (Continued)

The banking facilities of certain subsidiaries are secured by leasehold land and buildings with an aggregate carrying value of $18,861,000 (2002: $8,900,000) and pledged over bank deposits totalling $12,777,000 (2002: $15,655,000) at 31 March 2003. Such banking facilities, amounting to $95,000,000 (2002: $131,098,000), were utilised to the extent of $40,948,000 (2002: $20,507,000) at 31 March 2003.

22 OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2003, the Group had obligations under finance leases repayable as follows:

	The Group 2003		
	Present value of the minimum lease payments $'000	**Interest expense relating to future periods $'000**	**Total minimum lease payments $'000**
Within 1 year	**268**	**27**	**295**
After 1 year but within 2 years	**267**	**13**	**280**
After 2 years but within 5 years	**101**	**–**	**101**
	368	**13**	**381**
	636	**40**	**676**

22 OBLIGATIONS UNDER FINANCE LEASES (Continued)

	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

23 ACCOUNTS AND BILLS PAYABLE

Ageing analysis of accounts payable is as follows:

	The Group	
	2003 $'000	2002 $'000
Accounts payable		
– due within 1 month or on demand	**14,425**	41,567
– due after 1 month but within 3 months	**6,412**	6,565
– due after 3 months but within 6 months	**16,216**	1,035
– due after 6 months but within 1 year	**1,715**	2,252
	38,768	51,419
Bills payable	**19,746**	14,363
	58,514	65,782

24 PROVISION FOR WARRANTIES

	The Group $'000
At 1 April 2002	117
Additional provisions made	156
Provisions used	(76)
Provisions unused and reversed during the year	(46)
At 31 March 2003	151

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.

25 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately.

The employees in the Group's PRC subsidiary are members of the state-managed retirement scheme. The PRC subsidiary is required to contribute a specified percentage of its payroll to the scheme. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

(Expressed in Hong Kong dollars)

26 EQUITY COMPENSATION BENEFITS

The Company has a share option scheme which was adopted on 28 March 2002 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of grant and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant. The options vest from the date of grant until the commencement of the exercisable period. Each option gives the holder the right to subscribe for one share.

(a) Movements in share options

	2003 Number	2002 Number
At 1 April	**–**	–
Issued	**10,000,000**	–
At 31 March	**10,000,000**	–
Options vested at 31 March	**10,000,000**	–

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	**Exercisable period**	**Exercise price**	**2003 Number**	2002 Number
9 September 2002	16 September 2002 to 15 September 2005	$0.365	**10,000,000**	–

26 EQUITY COMPENSATION BENEFITS (Continued)

(c) Share options granted

Exercisable period	Exercise price	2003 Number	2002 Number
16 September 2002 to 15 September 2005	$0.365	**10,000,000**	–

The consideration payable by each employee for the entire amount of options granted is $1 in total.

(d) Share options exercised

No share options were exercised for the year ended 31 March 2003.

27 SHARE CAPITAL

	2003		2002	
	Number of shares ('000)	**Amount $'000**	Number of shares ('000)	Amount $'000
Authorised:				
Ordinary shares of $0.1 each	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
At 1 April	**280,000**	**28,000**	20	20
Capital eliminated on consolidation	**–**	**–**	(20)	(20)
Issuance of shares	**–**	**–**	2,000	200
Capitalisation issue	**–**	**–**	194,000	19,400
Issuance of shares for cash	**–**	**–**	84,000	8,400
	280,000	**28,000**	280,000	28,000

28 RESERVES

(a) The Group

	Share premium $'000	Capital reserve $'000	Contributed surplus $'000	Retained profits $'000	Total $'000
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	33,600	–	–	–	33,600
Capitalisation issue of shares	(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	–	–	–	(15,000)	(15,000)
At 31 March 2002	3,728	(4,665)	(180)	63,908	62,791

	Share premium $'000	Capital reserve $'000	Contributed surplus $'000	Retained profits $'000	Total $'000
At 1 April 2002	3,728	(4,665)	(180)	63,908	62,791
Dividends approved in respect of the previous year (note 11(b))	–	–	–	(2,800)	(2,800)
Profit for the year	–	–	–	8,082	8,082
At 31 March 2003	**3,728**	**(4,665)**	**(180)**	**69,190**	**68,073**

28 RESERVES (Continued)

(b) The Company

	Share premium $'000	Contributed surplus $'000	Retained profits/ (accumulated losses) $'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	33,600	–	–	33,600
Capitalisation issue of shares	(19,400)	–	–	(19,400)
Share issue expenses	(10,472)	–	–	(10,472)
Loss for the year	–	–	(18)	(18)
At 31 March 2002	3,728	69,063	(18)	72,773
At 1 April 2002	3,728	69,063	(18)	72,773
Special dividend payable to the then shareholder of a subsidiary (note 17(a))	–	(10,000)	–	(10,000)
Dividends approved in respect of the previous year (note 11(b))	–	–	(2,800)	(2,800)
Profit for the year	–	–	5,778	5,778
At 31 March 2003	**3,728**	**59,063**	**2,960**	**65,751**

28 RESERVES (Continued)

(b) The Company (Continued)

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.

The contributed surplus of the Company arose from the difference between the consolidated net assets of the Group's subsidiaries acquired pursuant to the Reorganisation at the date on which the Reorganisation became effective, and the nominal amount of the Company's ordinary shares issued under the Reorganisation.

29 COMMITMENTS

(a) Lease commitments

At 31 March 2003, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2003	2002
	$'000	$'000
Within 1 year	**534**	703
After 1 year but within 5 years	**21**	96
	555	799

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.

29 COMMITMENTS (Continued)

(b) Capital commitments

Capital commitments outstanding at 31 March 2003 not provided for in the financial statements were as follows:

	The Group	
	2003 **$'000**	2002 $'000
Contracted but not provided for in respect of		
– purchase of land	**828**	–
– capital injection to a wholly-owned subsidiary in the PRC	**7,647**	–
– loan to an associate	**5,927**	–
	14,402	–

30 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 2003 are as follows:

	2003 **$'000**	2002 $'000
Foreign exchange forwards maturing in less than 1 year		
– sales	**41,211**	9,472
– purchases	**9,365**	2,018

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.

30 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.

31 CONTINGENT LIABILITIES

At 31 March 2003, the Group provided guarantees in favour of third parties (representing customers and potential customers) for performing duties and quality assurance amounting to $1,886,000 (2002: $2,196,000) and $26,043,000 (2002: $14,292,000), respectively.

32 RELATED PARTY TRANSACTIONS

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

	Note	**2003**	2002
		$'000	$'000
Sales of other investment	(i)	**–**	1,823
Sales of goods	(ii)	**–**	1,687
Loan to an associate	(iii)	**4,073**	–
Loan to related company	(iii)	**934**	–

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.

(iii) The amounts represented loans to an associate and a related company, International Yacht Distributors Limited during the year. International Yacht Distributors Limited is a shareholder of Yardway Marine. The amounts are unsecured, interest-free and have no fixed terms of repayment.

32 RELATED PARTY TRANSACTIONS (Continued)

(b) During the year, the Group entered into an agreement with a wholly-owned subsidiary of China National Aviation Corporation (Group) Limited, for the establishment of a company which becomes an associate of the Group. China National Aviation Corporation (Group) Limited beneficially holds 100% of equity interests of Goodwell Group Invest Limited, a substantial shareholder of the Company.

33 POST BALANCE SHEET EVENTS

(a) On 25 April 2003, the Group set up a newly established company in Hong Kong, Yardway Enterprise Limited with a third party under which the Group committed to contribute a 75% of the share capital of the company for a consideration of approximately $1,500,000.

(b) After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 11.

34 COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

In order to comply with the revised requirements of SSAP 1 (revised), the Group adopts the new statement "Consolidated statement of changes in equity" which replaces the "Consolidated statement of recognised gains and losses" included in previous financial statements. The new statement reconciles the movement of key components of the shareholders' fund, including share capital, reserves and retained earnings, from the beginning to end of a period.