## 1 Principal accounting policies

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2006 comprise the Company and its subsidiaries and the interest in a jointly controlled entity (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– investment property (see note 1(g));
– leasehold land and buildings (see note 1(h));
– investment in equity securities (see note 1(e)); and
– derivative financial instruments (see note 1(f)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 Principal accounting policies (Continued)

### (c) 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 from the date that control commences until the date that control ceases.

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.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)).

### (d) Jointly controlled entities

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the enterprise's assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

### (e) Investment in equity securities

Investments in equity securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

## 1 Principal accounting policies (Continued)

### (f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

### (g) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(i)) to earn rental income and/or capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(s)(ii).

When the Company holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(i).

### (h) Other property, plant and equipment

Leasehold land and buildings held for own use are stated in the balance sheet at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation.

Revaluations are performed with sufficient regularity to ensure the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Changes arising on the revaluation of properties held for own use are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

Other items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

## 1 Principal accounting policies (Continued)

### (h) Other property, plant and equipment (Continued)

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– Leasehold land is depreciated on the straight-line basis over the remaining term of the lease.

– Buildings situated on leasehold land 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.

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

Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (i) Leased assets

*(i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 Principal accounting policies (Continued)

### (i) Leased assets (Continued)

*(ii) 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 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 in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Finance charges implicit in the lease payments are charged to profit or loss 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.

*(iii) Finance leases receivables*

Where the Group leases out assets under finance leases, an amount representing the net investment in the lease is included in the balance sheet as a receivable. Finance income implicit in the lease payments is credited to the income statement over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period.

*(iv) Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

### (j) Impairment of assets

*(i) Impairment of financial assets*

Impairment loss on financial assets carried at cost or amortised cost are measured as the difference between its carrying amount and the estimated future cash flows, discounted where the effect of discounting is material.

## 1 Principal accounting policies (Continued)

### (j) Impairment of assets (Continued)

*(ii) Impairment of other 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:

– property, plant and equipment (other than properties carried at revalued amounts); and

– investments in subsidiaries and a jointly controlled entity.

If any such indication exists, the asset's recoverable amount is estimated.

(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) Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

(iii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable 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 profit or loss in the year in which the reversals are recognised.

## 1 Principal accounting policies (Continued)

### (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 is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(j)).

### (m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

### (n) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (o) Cash and 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 consolidated cash flow statement.

## 1 Principal accounting policies (Continued)

### (p) Employee benefits

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

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

(ii) *Share based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

### (q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

## 1 Principal accounting policies (Continued)

### (q) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 Principal accounting policies (Continued)

### (r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company 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 expenditure 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.

### (s) 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 profit or loss 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 tax 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 profit or loss in equal instalments over the 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 profit or loss as an integral part of the aggregate net lease payments receivable.

*(iii) Commission and service income*

Commission and service income are recognised when services are rendered.

*(iv) Dividend income from listed investments*

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

*(v) Interest income*

Interest income is recognised as it accrues using the effective interest rate method.

*(vi) Royalty income*

Royalty income is recognised when it is receivable.

## 1 Principal accounting policies (Continued)

### (t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

### (u) Borrowing costs

Borrowing costs are expensed in profit or loss in the year in which they are incurred.

### (v) 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 or 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

### (w) 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 property, plant and equipment. 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 entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

## 1 Principal accounting policies (Continued)

### (w) Segment reporting (Continued)

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, tax balances, corporate and financing expenses.

## 2 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 34).

### (a) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 April 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 1(p)(ii).

The Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7 November 2002; and

(b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

Details of the employee share option scheme are set out in note 24.

As the Group's options were granted to employees before 7 November 2002, the adoption of HKFRS 2 has no impact on the Group's net assets and results for the current and prior years.

## 2 Changes in accounting policies (Continued)

### (b) Amortisation of goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior periods, the Group's positive goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business.

In accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1 January 2001) will not be recognised in profit or loss on disposal or impairment of the acquired business, or under any other circumstances.

The change in accounting policy relating to goodwill had no effect on the financial statements.

### (c) Changes in presentation of minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 April 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. Further details of the new policy are set out in note 1(c). These changes in presentation have been applied retrospectively with comparatives restated accordingly.

### (d) Leasehold land and building (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With effect from 1 April 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

In case the two elements cannot be allocated reliably, the entire lease is classified as a finance lease and carried at revalued amount. Further details of the new policy are set out in notes 1(h) and 1(i). The adoption of this new policy has no impact on the Group's net assets and results of the current and prior years.

## 2 Changes in accounting policies (Continued)

### (e) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

With effect from 1 April 2005, in order to comply with HKAS 32 and HKAS 39, the Group has changed its accounting policies relating to financial instruments to those as set out in notes 1(e), (f), (j) and (l) to (n).

*(i) Investments in debt and equity securities*

In prior years, equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision. Other investments in securities (including those held for trading and for non-trading purposes) were stated at fair value with changes in fair value recognised in profit or loss.

With effect from 1 April 2005, and in accordance with HKAS 39, all investments, with the exception of securities held for trading purposes, dated debt securities being held to maturity and certain unquoted equity investments, are classified as available-for-sale securities and carried at fair value. There are no material adjustments and classification arising from the adoption of the new policies for securities held for trading purposes for the year.

*(ii) Derivative financial instruments*

In prior years, derivative financial instruments entered into by management to hedge the foreign currency risk of a committed future transaction were recognised on an accruals basis with reference to the timing of recognition of the hedged transaction.

With effect from 1 April 2005, and in accordance with HKAS 39, all derivative instruments (i.e. forward exchange contracts) entered into by the Group are stated at fair value. Changes in the fair value of the derivatives are recognised in profit or loss. Further details of the new policies are set out in note 1(f).

This change in accounting policy was adopted by way of an adjustment to the opening balance of the retained earnings as at 1 April 2005 and net assets of the Group has decreased by $326,000. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39. As a result of this new policy, the Group's profit before taxation for the year ended 31 March 2006 has increased by $326,000.

## 2 Changes in accounting policies (Continued)

### (f) Investment property (HKAS 40, Investment property and HK(SIC) Interpretation 21, Income taxes – Recovery of revalued non-depreciable assets)

Changes in accounting policies relating to investment properties are as follows:

(i) *Timing of recognition of movements in fair value in the income statement*

In prior years, movements in fair values of the Group's investment properties were recognised directly in the investment properties revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement.

Upon the adoption of HKAS 40 as from 1 April 2005, all changes in the fair values of investment properties are recognised directly in the income statement in accordance with the fair value model in HKAS 40. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal. Further details of the new policy for investment property are set out in note 1(g).

The Group has applied the new policy retrospectively by increasing the opening balance of retained earnings as of 1 April 2005 by $1,881,000 (1 April 2004: $Nil) to include all of the Group's previous investment properties revaluation reserve. There is no net effect to the opening net assets as of 1 April 2005 or 1 April 2004 as a result of the adoption of HKAS 40.

As a result of adoption HKAS 40, the Group's profit for the year has increased by $1,910,000 (2005: $1,881,000) with a corresponding decrease in the revaluation reserves.

(ii) *Measurement of deferred tax on movements in fair value*

In prior years, the Group was required to apply the tax rate that would be applicable to the sale of investment properties to determine whether any amounts of deferred tax should be recognised on the revaluation of investment properties. Consequently, deferred tax was only provided to the extent that tax allowances already given would be clawed back if the property were disposed of at its carrying value, as there would be no additional tax payable on disposal.

As from 1 April 2005, in accordance with HK(SIC) Interpretation 21, the Group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model. Further details of the policy for deferred tax are set out in note 1(q).

## 2 Changes in accounting policies (Continued)

### (f) Investment property (HKAS 40, Investment property and HK(SIC) Interpretation 21, Income taxes – Recovery of revalued non-depreciable assets) (continued)

*(ii) Measurement of deferred tax on movements in fair value (continued)*

The change in accounting policy has been adopted retrospectively by reducing the opening balance of retained profits as of 1 April 2005 by $329,000 (1 April 2004: $Nil) and increasing deferred tax liabilities by the same amount. As a result of this new policy, the Company's tax expense for the year ended 31 March 2006 has increased by $437,500 (2005: $329,000).

### (g) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 1(v) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

## 3 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:

| | **2006**<br>**$'000** | 2005<br>$'000 |
|---|---|---|
| Sales of goods | **159,125** | 129,972 |
| Service income | **11,215** | 9,921 |
| Commission income | **19,306** | 16,490 |
| | **189,646** | 156,383 |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 4 Other revenue and other net (loss)/income

| | **2006** | 2005 |
|---|---|---|
| | **$'000** | $'000 |
| **Other revenue** | | |
| Gross rental income from investment properties | **1,740** | 246 |
| Interest income | **1,343** | 588 |
| Royalty income | **390** | 172 |
| Dividend income from listed securities | **20** | – |
| Others | **497** | 165 |
| | **3,990** | 1,171 |
| **Other net (loss)/income** | | |
| Exchange (loss)/gain, net | **(2,059)** | 2,112 |
| Gain on sale of fixed assets | **482** | 27 |
| Net gain/(loss) on sale of trading securities | **1** | (16) |
| Net unrealised gain/(loss) on trading securities carried at fair value | **27** | (4) |
| | **(1,549)** | 2,119 |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 5 Profit before taxation

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

| | | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| (a) | Finance costs: | | |
| | Interest on bank advances and bank borrowings repayable within five years | **1,248** | 539 |
| | Interest on bank advances and bank borrowings repayable after five years | **392** | 302 |
| | Finance charges on obligations under finance leases | **53** | 39 |
| | | **1,693** | 880 |
| (b) | Staff costs: | | |
| | Contributions to defined contribution plans | **969** | 883 |
| | Salaries, wages and other benefits | **18,488** | 18,928 |
| | | **19,457** | 19,811 |
| (c) | Other items: | | |
| | Amortisation of land lease premium | **27** | 14 |
| | Depreciation: | | |
| | – owned fixed assets | **2,785** | 2,484 |
| | – assets held for use under finance leases | **433** | 351 |
| | Increase in provision | **64** | 80 |
| | Auditors' remuneration: | | |
| | – audit services | **796** | 783 |
| | – other services | **44** | 22 |
| | Net loss on forward exchange contract | **329** | – |
| | Operating lease charges in respect of properties: | | |
| | – minimum lease payments | **1,862** | 1,336 |
| | Rentals receivable from investment properties less direct outgoings of $132,000 (2005: $10,000) | **(1,608)** | (236) |
| | Cost of inventories | **137,970** | 113,956 |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 6 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

| | 2006 | 2005 |
|---|---|---|
| | | (restated) |
| | $'000 | $'000 |
| **Current tax – Hong Kong Profits Tax** | | |
| Provision for the year | **82** | 88 |
| Under-provision in respect of prior years | **2** | 425 |
| | **84** | 513 |
| **Current tax – PRC** | | |
| Provision for the year | **139** | 61 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **1,278** | (447) |
| | **1,501** | 127 |

The provision for Hong Kong Profits Tax for 2006 is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. PRC taxation is charged at the appropriate current rate of taxation ruling in the PRC.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

| | 2006 | 2005 |
|---|---|---|
| | | (restated) |
| | $'000 | $'000 |
| Profit before tax | **10,082** | 8,775 |
| Notional tax on profit before tax calculated at the rates applicable to profits in the countries concerned | **1,829** | 1,486 |
| Tax effect of non-deductible expenses | **756** | 1,780 |
| Tax effect of non-taxable income | **(1,136)** | (3,869) |
| Tax effect of unused tax losses not recognised | **87** | 317 |
| Under-provision in prior years | **2** | 425 |
| Others | **(37)** | (12) |
| Actual tax expense | **1,501** | 127 |

## 7 Directors' remuneration

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

| | Directors' fees $'000 | Salaries, allowances and benefits in kind $'000 | Discretionary bonus $'000 | Retirement scheme contributions $'000 | 2006 Total $'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Fong Kit Wah, Alan | **–** | **1,780** | **300** | **12** | **2,092** |
| Rourke, James Grierson | **–** | **739** | **100** | **12** | **851** |
| Cheung Miu Sin | **–** | **471** | **100** | **12** | **583** |
| **Independent non-executive directors** | | | | | |
| Wong Man Chung, Francis | **71** | **–** | **–** | **–** | **71** |
| Chan Ting Kwong | **71** | **–** | **–** | **–** | **71** |
| Fung Siu Wan, Stella | **71** | **–** | **–** | **–** | **71** |
| **Non-executive director** | | | | | |
| Yin Jie | **–** | **–** | **–** | **–** | **–** |
| | **213** | **2,990** | **500** | **36** | **3,739** |

| | Directors' fees $'000 | Salaries, allowances and benefits in kind $'000 | Discretionary bonus $'000 | Retirement scheme contributions $'000 | 2005 Total $'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Fong Kit Wah, Alan | – | 1,647 | – | 12 | 1,659 |
| Rourke, James Grierson | – | 778 | – | 12 | 790 |
| Cheung Miu Sin | – | 380 | – | 12 | 392 |
| **Independent non-executive directors** | | | | | |
| Law Yui Lun | 27 | – | – | – | 27 |
| Wong Man Chung, Francis | 60 | – | – | – | 60 |
| Chan Ting Kwong | 33 | – | – | – | 33 |
| Fung Siu Wan, Stella | 33 | – | – | – | 33 |
| **Non-executive director** | | | | | |
| Yin Jie | – | – | – | – | – |
| | 153 | 2,805 | – | 36 | 2,994 |

## 7 Directors' remuneration (Continued)

Certain directors were granted share options in prior years under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Share option scheme" in the directors' report and note 24.

## 8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2005: two) are directors whose emoluments is disclosed in note 7. The aggregate of the emoluments in respect of the other two (2005: three) individuals are as follows:

| | **2006** **$'000** | 2005 $'000 |
|---|---|---|
| Salaries and other emoluments | **1,169** | 1,879 |
| Discretionary bonuses | **100** | – |
| Retirement scheme contributions | **12** | 24 |
| | **1,281** | 1,903 |

The emoluments of the two (2005: three) individuals with the highest emoluments are within the following band:

| | **2006** **Number of individuals** | 2005 Number of individuals |
|---|---|---|
| $Nil – $1,000,000 | **2** | 3 |

## 9 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of $1,020,000 (2005: profit of $3,478,000) which has been dealt with in the financial statements of the Company.

## 10 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year:

| | **2006** **$'000** | 2005 $'000 |
|---|---|---|
| Final dividend proposed after the balance sheet date of 1 cent per ordinary share (2005: 1 cent per ordinary share) | **2,800** | 2,800 |

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

## 10 Dividends (Continued)

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

| | **2006** | 2005 |
|---|---|---|
| | **$'000** | $'000 |
| Final dividend in respect of the previous financial year, approved and paid during the year, of 1 cent per ordinary share (2005: Nil) | **2,800** | – |

## 11 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $8,496,000 (2005 (restated): $8,556,000) and the weighted average number of 280,000,000 ordinary shares (2005: 280,000,000 ordinary shares) in issue during the year.

### (b) Diluted earnings per share

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

There were no potential dilutive ordinary shares in issue as at 31 March 2006.

## 12 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 unless otherwise indicated)

## 12 Segment reporting (Continued)

### Business segments (Continued)

| | Sales and distribution | | Provision of engineering services and sales of spare parts | | Unallocated | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 (restated) |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Revenue from external customers | **145,528** | 127,678 | **44,118** | 28,705 | **–** | – | **189,646** | 156,383 |
| Other revenue from external customers | **–** | – | **–** | – | **3,990** | 1,171 | **3,990** | 1,171 |
| Total | **145,528** | 127,678 | **44,118** | 28,705 | **3,990** | 1,171 | **193,636** | 157,554 |
| Segment results | **10,681** | 7,816 | **3,444** | 1,307 | | | **14,125** | 9,123 |
| Unallocated operating income and expenses | | | | | | | **(2,350)** | 532 |
| Profit from operations | | | | | | | **11,775** | 9,655 |
| Finance costs | | | | | | | **(1,693)** | (880) |
| Taxation | | | | | | | **(1,501)** | (127) |
| Profit after tax | | | | | | | **8,581** | 8,648 |
| Depreciation and amortisation for the year | **779** | 1,543 | **221** | 136 | **2,245** | 1,170 | | |
| Provision of inventories | **–** | – | **900** | 300 | **–** | – | | |
| Impairment loss on trade receivable | **37** | 422 | **–** | – | **–** | – | | |
| Segment assets | **149,933** | 134,971 | **31,951** | 22,120 | | | **181,884** | 157,091 |
| Unallocated assets | | | | | | | **38,586** | 30,238 |
| Total assets | | | | | | | **220,470** | 187,329 |
| Segment liabilities | **87,701** | 68,071 | **12,605** | 2,998 | | | **100,306** | 71,069 |
| Unallocated liabilities | | | | | | | **11,767** | 13,658 |
| Total liabilities | | | | | | | **112,073** | 84,727 |
| Capital expenditure incurred during the year | **132** | 1,893 | **761** | 662 | **2,214** | 1,751 | | |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 12 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 | |
|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Revenue from external customers | **46,298** | 31,931 | **134,335** | 112,289 | **6,802** | 2,553 | **2,211** | 9,610 |
| Segment assets | **179,811** | 156,949 | **38,792** | 28,074 | **–** | – | **1,867** | 2,306 |
| Capital expenditure incurred during the year | **1,765** | 2,733 | **1,342** | 1,573 | **–** | – | **–** | – |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 13 Fixed assets

### (a) The Group

| | Leasehold land and buildings $'000 | Furniture, fixtures and equipment $'000 | Motor vehicles $'000 | Construction in progress $'000 | Subtotal $'000 | Investment properties $'000 | Interest in leasehold land held for own use under operating leases $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or valuation:** | | | | | | | | |
| At 1 April 2005 | 19,067 | 12,641 | 2,349 | 79 | 34,136 | 21,272 | 704 | 56,112 |
| Additions | – | 1,081 | 1,606 | 112 | 2,799 | – | 308 | 3,107 |
| Transfer from construction in progress | – | 79 | – | (79) | – | – | – | – |
| Disposals | (327) | (716) | (1,180) | – | (2,223) | (1,772) | – | (3,995) |
| Surplus on revaluation | 235 | – | – | – | 235 | – | – | 235 |
| Fair value adjustment | – | – | – | – | – | 1,910 | – | 1,910 |
| Exchange difference | – | 58 | 4 | – | 62 | – | 13 | 75 |
| At 31 March 2006 | 18,975 | 13,143 | 2,779 | 112 | 35,009 | 21,410 | 1,025 | 57,444 |
| **Representing:** | | | | | | | | |
| Cost | – | 13,143 | 2,779 | 112 | 16,034 | – | 1,025 | 17,059 |
| Valuation – 2006 | 18,975 | – | – | – | 18,975 | 21,410 | – | 40,385 |
| | 18,975 | 13,143 | 2,779 | 112 | 35,009 | 21,410 | 1,025 | 57,444 |
| **Accumulated amortisation and depreciation:** | | | | | | | | |
| At 1 April 2005 | – | 5,573 | 1,242 | – | 6,815 | – | 14 | 6,829 |
| Charge for the year | 375 | 2,060 | 783 | – | 3,218 | – | 27 | 3,245 |
| Written back on disposal | – | (621) | (779) | – | (1,400) | – | – | (1,400) |
| Elimination on revaluation | (375) | – | – | – | (375) | – | – | (375) |
| Exchange difference | – | 11 | 1 | – | 12 | – | – | 12 |
| At 31 March 2006 | – | 7,023 | 1,247 | – | 8,270 | – | 41 | 8,311 |
| **Net book value:** | | | | | | | | |
| At 31 March 2006 | 18,975 | 6,120 | 1,532 | 112 | 26,739 | 21,410 | 984 | 49,133 |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 13 Fixed assets (Continued)

### (a) The Group (Continued)

| | Leasehold land and buildings $'000 | Furniture, fixtures and equipment $'000 | Motor vehicles $'000 | Construction in progress $'000 | Subtotal $'000 | Investment properties $'000 | Interest in leasehold land held for own use under operating leases $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or valuation:** | | | | | | | | |
| At 1 April 2004 | 25,810 | 9,625 | 2,214 | 2,366 | 40,015 | 3,790 | – | 43,805 |
| Additions | 257 | 1,496 | 458 | – | 2,211 | 1,391 | 704 | 4,306 |
| Transfer from construction in progress | – | 2,287 | – | (2,287) | – | – | – | – |
| Disposals | – | (767) | (323) | – | (1,090) | – | – | (1,090) |
| Reclassification | (14,000) | – | – | – | (14,000) | 14,000 | – | – |
| Surplus on revaluation | 7,000 | – | – | – | 7,000 | – | – | 7,000 |
| Fair value adjustment | – | – | – | – | – | 2,091 | – | 2,091 |
| At 31 March 2005 | 19,067 | 12,641 | 2,349 | 79 | 34,136 | 21,272 | 704 | 56,112 |
| **Representing:** | | | | | | | | |
| Cost | – | 12,641 | 2,349 | 79 | 15,069 | – | 704 | 15,773 |
| Valuation – 2005 | 19,067 | – | – | – | 19,067 | 21,272 | – | 40,339 |
| | 19,067 | 12,641 | 2,349 | 79 | 34,136 | 21,272 | 704 | 56,112 |
| **Accumulated amortisation and depreciation:** | | | | | | | | |
| At 1 April 2004 | – | 4,169 | 1,016 | – | 5,185 | – | – | 5,185 |
| Charge for the year | 349 | 1,976 | 510 | – | 2,835 | – | 14 | 2,849 |
| Written back on disposal | – | (572) | (284) | – | (856) | – | – | (856) |
| Elimination on revaluation | (349) | – | – | – | (349) | – | – | (349) |
| At 31 March 2005 | – | 5,573 | 1,242 | – | 6,815 | – | 14 | 6,829 |
| **Net book value:** | | | | | | | | |
| At 31 March 2005 | 19,067 | 7,068 | 1,107 | 79 | 27,321 | 21,272 | 690 | 49,283 |

## 13 Fixed assets (Continued)

**(b)** The Group's leasehold land and buildings and investment properties were revalued as at 31 March 2006 by an independent firm of surveyors, Sallmanns (Far East) Limited, who has 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 sale transactions in the relevant markets. The revaluation surplus of $284,000 (2005: $2,909,000) and $1,910,000 (2005 (restated): $2,091,000) for the Group's leasehold land and buildings and investment properties has been credited to the consolidated income statement during the year respectively. The revaluation surplus of $326,000 (2005: $4,440,000) for the Group's leasehold land and buildings has been transferred to the revaluation reserve (note 27), net of deferred tax (note 25(b)).

The carrying amount of the leasehold land and buildings of the Group at 31 March 2006 would have been $14,210,000 (2005: $14,787,000) had they been carried at cost less accumulated depreciation.

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

| | **2006** | 2005 |
|---|---|---|
| | **$'000** | $'000 |
| In Hong Kong | | |
| – medium-term leases | **28,500** | 28,100 |
| In the PRC | | |
| – long-term leases | **8,485** | 8,389 |
| – medium-term leases | **3,400** | 3,850 |
| | **40,385** | 40,339 |
| **Representing:** | | |
| Land and buildings | **18,975** | 19,067 |
| Investment properties | **21,410** | 21,272 |
| | **40,385** | 40,339 |

**(d) Fixed assets held under finance leases**

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.

The net book value of motor vehicles held under finance leases of the Group was $700,000 (2005: $564,000).

## 13 Fixed assets (Continued)

**(e) Fixed assets leased out under operating leases**

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to three 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.

The gross carrying amounts of investment properties of the Group held for use in operating leases were $21,410,000 (2005: $21,273,000).

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

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

| | **2006** | 2005 |
|---|---|---|
| | **$'000** | $'000 |
| Within 1 year | **1,704** | 1,722 |
| After 1 year but within 5 years | **1,576** | 2,944 |
| | **3,280** | 4,666 |

**(f)** At 31 March 2006, the Group was still in the process of obtaining the relevant legal property certificates of investment properties and land use right certificate in the PRC amounted to $3,400,000 (2005: $3,850,000) and $984,000 (2005: $690,000) respectively. 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 land use right.

**(g)** For the year ended 31 March 2005, two leasehold properties held by the Group were transferred to investment property at fair value at the date of transfer of $14,000,000. The revaluation reserve arising from the difference between the carrying value and fair value at the date of transfer amounted $794,333 was included in the land and buildings reserve at 31 March 2005.

## 14 Finance lease receivable

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | **2006** | | | 2005 | | |
| | **Present value of the minimum lease payments $'000** | **Interest income relating to future periods $'000** | **Total minimum lease payments $'000** | Present value of the minimum lease payments $'000 | Interest income relating to future periods $'000 | Total minimum lease payments $'000 |
| **Amounts receivable:** | | | | | | |
| Within one year | **98** | **2** | **100** | 111 | 9 | 120 |
| After one year but within five years | **–** | **–** | **–** | 98 | 2 | 100 |
| | **98** | **2** | **100** | 209 | 11 | 220 |

The Group leases out a motor vehicle under a finance lease expiring in three years. At the end of the lease term and the fulfilment of the lease payments, the title of the motor vehicle will be passed to the lessee. The finance lease does not include any contingent rentals.

## 15 Interests in subsidiaries

| | The Company | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Unlisted shares, at cost | **59,263** | 59,263 |
| Amounts due from subsidiaries | **30,938** | 34,731 |
| | **90,201** | 93,994 |

Amounts due from subsidiaries are unsecured, 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

## 15 Interests in subsidiaries (Continued)

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group financial statements.

| Name of Company | Place of incorporation/ establishment and operation | Particulars of issued and fully paid share capital/ capital contribution | Proportion of ownership interest | | Principal activity |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Yardway Development Limited | British Virgin Islands ("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 (a)) | – | 100% | Trading of vehicles, machinery and parts and provision of engineering services |
| Yardway Motors Limited | Hong Kong | $10,000 | – | 100% | Trading of motor vehicles and spare parts and provision of services |
| Yardway Equipment Limited | Hong Kong | $10,000 | – | 100% | Trading of equipment and spare parts and provision of services |
| Yardway Marine Limited ("Yardway Marine") | Hong Kong | $10,000 | – | 51% | Trading of yachts |
| Yardway Logistics Equipment (Zhuhai) Company Limited ("Yardway Zhuhai") | PRC | $5,000,000 (Note (b)) | – | 100% | Trading of transportation and logistics related equipment |

## 15 Interests in subsidiaries (Continued)

| Name of Company | Place of incorporation/ establishment and operation | Particulars of issued and fully paid share capital/ capital contribution | Proportion of ownership interest | | Principal activity |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Yardway Enterprise Limited | Hong Kong | $2,000,000 | – | 75% | Design and installation of product line and the provision of related after sale service |
| Inteq Asia Limited | Hong Kong | $100 | – | 67% | Trading of natural gas products and alternative fuel technology for vehicles, equipment and engines |

Notes:

(a) 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.

(b) These represented paid up capital of Yardway Zhuhai, which is a wholly foreign owned enterprise established in Zhuhai, the PRC. The registered capital of Yardway Zhuhai is $10,000,000.

(Expressed in Hong Kong dollars unless otherwise indicated)

## 16 Interest in a jointly controlled entity

Details of the Group's interest in the jointly controlled entity are as follows:

| Name of joint venture | Form of business structure | Place of incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest | | Principal activity |
|---|---|---|---|---|---|---|
| | | | | Direct | Indirect | |
| AST Asia Limited ("AST Asia") | Incorporated | Hong Kong | $10,000 | – | 50% | Design and manufacturing of heavy duty bus and coach products |

AST Asia was incorporated in Hong Kong on 4 February 2006 under the Hong Kong Companies Ordinance.

Included in the consolidated financial statements are the following items that represent the Group's interests in the assets and liabilities, revenues and expenses of the jointly controlled entity:

| | 2006 $'000 |
|---|---|
| Current assets | **3** |
| Current liabilities | **(484)** |
| Net liabilities | **(481)** |
| Income | **–** |
| Expenses | **(486)** |
| Loss for the period | **(486)** |

## 17 Inventories

(a) Inventories in the balance sheet comprise:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Work in progress | **7** | 254 | **–** | – |
| Finished goods | **14,527** | 9,430 | **–** | – |
| | **14,534** | 9,684 | **–** | – |

(b) The analysis of the amount of inventories recognised as an expense is as follows:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Carrying amount of inventories sold | **137,370** | 113,656 |
| Write down of inventories | **600** | 300 |
| | **137,970** | 113,956 |

## 18 Trade and other receivables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Trade and bills receivables | **34,285** | 28,456 | **–** | – |
| Retentions receivable | **6,411** | 7,658 | **–** | – |
| Prepayments, deposits and other receivables | **18,279** | 12,203 | **181** | 136 |
| Amount due from a related company | **256** | 181 | **–** | – |
| Amount due from a jointly controlled entity | **409** | – | **–** | – |
| | **59,640** | 48,498 | **181** | 136 |

All of the trade and other receivables (including amounts due from related company and the jointly controlled entity), apart from certain retentions receivable are expected to be recovered within one year.

(Expressed in Hong Kong dollars unless otherwise indicated)

## 18 Trade and other receivables (Continued)

Included in trade and other receivables are trade and bills receivables (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Current | **21,965** | 16,703 |
| 1 to 3 months overdue | **8,866** | 7,017 |
| More than 3 months overdue but less than 12 months overdue | **1,969** | 2,637 |
| More than 12 months overdue | **1,485** | 1,459 |
| | **34,285** | 27,816 |
| Bills receivable | **–** | 640 |
| | **34,285** | 28,456 |

The Group's credit policy is set out in note 28(a).

Retentions receivable are amounts which are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts. The amount of these retentions expected to be recovered after more than one year is $2,675,000 (2005: $1,186,000).

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| United States Dollars | **USD3,798** | USD2,522 | **–** | – |
| Euros | **EUR712** | EUR1,077 | **–** | – |
| Renminbi Yuan | **RMB11,283** | RMB6,676 | **–** | – |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 19 Pledged bank deposits

The amounts are pledged to secure certain bank loans of the Group.

Included in pledged bank deposits are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Renminbi Yuan | **RMB3,083** | – | **–** | – |

## 20 Cash and cash equivalents

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Deposits with banks | **64,548** | 48,521 | **–** | – |
| Cash at bank and in hand | **20,903** | 21,469 | **39** | 31 |
| Cash and cash equivalents in the balance sheet | **85,451** | 69,990 | **39** | 31 |
| Bank overdrafts (note 22) | **(122)** | (550) | | |
| Cash and cash equivalents in the consolidated cash flow statement | **85,329** | 69,440 | | |

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| United States Dollars | **USD8,317** | USD4,920 | **USD1** | USD1 |
| Euros | **EUR912** | EUR1,518 | **–** | – |
| Renminbi Yuan | **RMB8,751** | RMB4,898 | **–** | – |
| Japanese Yen | **JPY14,799** | JPY14,793 | **–** | – |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 21 Trade and other payables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Trade and bills payable | **58,413** | 41,534 | **–** | – |
| Sales deposits received | **24,403** | 7,022 | **–** | – |
| Other payables and accruals | **4,013** | 2,553 | **466** | 386 |
| Amount due to a related company | **328** | – | **–** | – |
| | **87,157** | 51,109 | **466** | 386 |

All trade and other payables are expected to be settled within one year. Included in trade and other payables are trade and bills payables with the following ageing analysis as of the balance sheet date.

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| Due within 1 month or on demand | **18,729** | 29,561 |
| Due after 1 month but within 3 months | **12,453** | 2,683 |
| Due after 3 months but within 6 months | **6,601** | 3,208 |
| Due after 6 months but within 1 year | **8,155** | 5,080 |
| | **45,938** | 40,532 |
| Bills payable | **12,475** | 1,002 |
| | **58,413** | 41,534 |

Included in trade and bills payable are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| United States Dollars | **USD6,612** | USD4,197 | **–** | – |
| Euros | **EUR1,539** | EUR897 | **–** | – |
| Renminbi Yuan | **RMB17,570** | RMB2,730 | **–** | – |
| Swiss Francs | **CHF18** | CHF499 | **–** | – |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 22 Bank loans and overdrafts

At 31 March 2006, the bank loans and overdraft were repayable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year or on demand | **16,294** | 23,302 | **–** | – |
| After 1 year but within 2 years | **774** | 954 | **–** | – |
| After 2 years but within 5 years | **2,645** | 3,195 | **–** | – |
| After 5 years | **4,344** | 5,193 | **–** | – |
| | **7,763** | 9,342 | **–** | – |
| | **24,057** | 32,644 | **–** | – |

At 31 March 2006, the bank loans and overdraft were secured as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Bank loans | | | | |
| – secured | **12,584** | 20,181 | **–** | – |
| – unsecured | **11,351** | 11,913 | **–** | – |
| | **23,935** | 32,094 | **–** | – |
| Unsecured bank overdrafts (note 20) | **122** | 550 | **–** | – |
| | **24,057** | 32,644 | **–** | – |

At 31 March 2006, certain banking facilities were secured by mortgages over the Group's leasehold land and buildings and investment properties with an aggregate carrying value of $28,500,000 (2005: $28,100,000) and pledge over bank deposits. Such banking facilities amounted to $138,300,000 (2005: $139,331,000). The facilities were utilised to the extent of $9,954,000 (2005: $9,914,000).

Further details of the Group's management of liquidity risk are set out in note 28(b).

(Expressed in Hong Kong dollars unless otherwise indicated)

## 22 Bank loans and overdrafts (Continued)

Included in bank loans and overdrafts are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| United States Dollars | **USD1,546** | USD1,705 | **–** | – |
| Euros | **EUR163** | EUR802 | **–** | – |

## 23 Obligations under finance leases

At 31 March 2006, the Group had obligations under finance leases repayable as follows:

| | The Group | | |
|---|---|---|---|
| | 2006 | | |
| | **Present value of the minimum lease payments $'000** | **Interest expense relating to future periods $'000** | **Total minimum lease payments $'000** |
| Within 1 year | **366** | **32** | **398** |
| After 1 year but within 2 years | **255** | **10** | **265** |
| After 2 years but within 5 years | **36** | **1** | **37** |
| | **291** | **11** | **302** |
| | **657** | **43** | **700** |

## 23 Obligations under finance leases (Continued)

At 31 March 2005, the Group had obligations under finance leases repayable as follows:

| | The Group | | |
|---|---|---|---|
| | 2005 | | |
| | Present value of the minimum lease payments $'000 | Interest expense relating to future periods $'000 | Total minimum lease payments $'000 |
| Within 1 year | 254 | 23 | 277 |
| After 1 year but within 2 years | 180 | 14 | 194 |
| After 2 years but within 5 years | 174 | 4 | 178 |
| | 354 | 18 | 372 |
| | 608 | 41 | 649 |

## 24 Equity settled share-based transactions

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, 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 of Hong Kong Limited ("SEHK") on the date of grant and the average closing price of the shares on the SEHK for the five business days immediately preceding the date of grant. The options vest from the date of grant and are then exercisable within a period of three years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants that existed during the year are as follows:

| | **Number of instruments** | **Vesting conditions** | **Contractual life of options** |
|---|---|---|---|
| Options granted to directors: | | | |
| – on 9 September 2002 | 7,000,000 | At date of grant | 3 years |
| Options granted to employees: | | | |
| – on 9 September 2002 | 1,000,000 | At date of grant | 3 years |
| | 8,000,000 | | |

## 24 Equity settled share-based transactions (Continued)

(b) The number and weighted average exercise prices of share options are as follows:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Weighted average exercise price** | **Number of options** | Weighted average exercise price | Number of options |
| Outstanding at 1 April | **$0.365** | **8,000,000** | $0.365 | 9,000,000 |
| Cancelled during the year | **–** | **–** | $0.365 | (1,000,000) |
| Expired during the year | **$0.365** | **(8,000,000)** | – | – |
| Outstanding at 31 March | **–** | **–** | $0.365 | 8,000,000 |
| Exercisable at the end of the year | **–** | **–** | $0.365 | 8,000,000 |

All options were expired during the year. The options outstanding at 31 March 2005 had an exercise price of $0.365 and a weighted average remaining contractual life of 0.7 year.

## 25 Income tax in the balance sheet

(a) Current taxation in the balance sheets represents:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006 $'000** | 2005 $'000 | **2006 $'000** | 2005 $'000 |
| Provision for Hong Kong Profits Tax for the year | **82** | 88 | **–** | – |
| Provisional Profits Tax paid | **(116)** | – | **–** | – |
| | **(34)** | 88 | **–** | – |
| Balance of Profits Tax provision relating to prior years | **(1,846)** | (1,800) | **–** | – |
| | **(1,880)** | (1,712) | **–** | – |
| Representing: | | | | |
| Tax recoverable | **(1,896)** | (1,846) | **–** | – |
| Tax payable | **16** | 134 | **–** | – |

## 25 Income tax in the balance sheet (Continued)

(b) Deferred tax assets and liabilities recognised:

**The Group**

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

| | Revaluation of investment properties | Depreciation allowances in excess of related depreciation | Revaluation of other properties | Provision for warranties | Provision for inventory | Tax losses | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Deferred tax arising from:** | | | | | | | |
| At 1 April 2004 (restated) | – | 717 | 86 | (50) | (35) | (1,607) | (889) |
| Charged/(credited) to profit or loss | 329 | (103) | – | 36 | 6 | (715) | (447) |
| Charged to reserves (note 27(a)) | – | – | 113 | – | – | – | 113 |
| At 31 March 2005 (restated) | 329 | 614 | 199 | (14) | (29) | (2,322) | (1,223) |
| At 1 April 2005 (restated) | 329 | 614 | 199 | (14) | (29) | (2,322) | (1,223) |
| Charged/(credited) to profit or loss | 371 | 85 | – | 8 | (38) | 852 | 1,278 |
| Charged to reserves (note 27(a)) | – | – | 32 | – | – | – | 32 |
| At 31 March 2006 | 700 | 699 | 231 | (6) | (67) | (1,470) | 87 |

| | The Group | |
|---|---|---|
| | **2006** | 2005 (restated) |
| | **$'000** | $'000 |
| Net deferred tax assets recognised on the balance sheet | **–** | (1,312) |
| Net deferred tax liabilities recognised on the balance sheet | **87** | 89 |
| | **87** | (1,223) |

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $15,340,000 (2005: $14,843,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

(Expressed in Hong Kong dollars unless otherwise indicated)

## 26 Provisions

| | The Group |
|---|---|
| | $'000 |
| At 1 April 2005 | 143 |
| Additional provisions made | 64 |
| Provisions utilised | (24) |
| Provisions unused and reversed during the year | (84) |
| At 31 March 2006 | 99 |

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within one year of the delivery of yachts to customers. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the one year prior to the balance sheet date. The amount of provision takes into account the Group's recent claim experience and only makes provision where a warranty claim is probable.

(Expressed in Hong Kong dollars unless otherwise indicated)

## 27 Capital and reserves

### (a) The Group

| | Attributable to equity shareholders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital $'000 | Share premium $'000 | Capital reserve $'000 | Contributed surplus $'000 | Exchange reserve $'000 | Revaluation reserve – land and buildings $'000 | Revaluation reserve – investment properties $'000 | Other reserves $'000 | Retained earnings $'000 | Total $'000 | Minority interests $'000 | Total equity $'000 |
| At 1 April 2004 | 28,000 | 3,728 | (4,665) | (180) | 65 | 407 | – | 125 | 61,557 | 89,037 | 590 | 89,627 |
| Revaluation surplus, net of deferred tax (restated) | – | – | – | – | – | 4,327 | – | – | – | 4,327 | – | 4,327 |
| Profit for the year (restated) | – | – | – | – | – | – | – | – | 8,556 | 8,556 | 92 | 8,648 |
| At 31 March 2005 | 28,000 | 3,728 | (4,665) | (180) | 65 | 4,734 | – | 125 | 70,113 | 101,920 | 682 | 102,602 |
| At 1 April 2005 | | | | | | | | | | | | |
| – As previously reported | 28,000 | 3,728 | (4,665) | (180) | 65 | 4,734 | 1,881 | 125 | 68,561 | 102,249 | 682 | 102,931 |
| – Prior period adjustment in respect of HKAS 40 | – | – | – | – | – | – | (1,881) | – | 1,552 | (329) | – | (329) |
| – As restated, before opening balance adjustments | 28,000 | 3,728 | (4,665) | (180) | 65 | 4,734 | – | 125 | 70,113 | 101,920 | 682 | 102,602 |
| – HKAS 39 | – | – | – | – | – | – | – | – | (326) | (326) | – | (326) |
| – As restated, after opening balance adjustments | 28,000 | 3,728 | (4,665) | (180) | 65 | 4,734 | – | 125 | 69,787 | 101,594 | 682 | 102,276 |
| Dividends approved in respect of previous year | – | – | – | – | – | – | – | – | (2,800) | (2,800) | – | (2,800) |
| Exchange difference on translation of the financial statements of subsidiary | – | – | – | – | 46 | – | – | – | – | 46 | – | 46 |
| Revaluation surplus, net of deferred tax | – | – | – | – | – | 294 | – | – | – | 294 | – | 294 |
| Transfer to retained profits on disposal of a leasehold property | – | – | – | – | – | (75) | – | – | 75 | – | – | – |
| Transfer to other reserves | – | – | – | – | – | – | – | 106 | (106) | – | – | – |
| Profit for the year | – | – | – | – | – | – | – | – | 8,496 | 8,496 | 85 | 8,581 |
| At 31 March 2006 | 28,000 | 3,728 | (4,665) | (180) | 111 | 4,953 | – | 231 | 75,452 | 107,630 | 767 | 108,397 |

(Expressed in Hong Kong dollars unless otherwise indicated)

## 27 Capital and reserves (Continued)

### (b) The Company

| | Share capital $'000 | Share premium $'000 | Contributed surplus $'000 | Retained profits/ (accumulated losses) $'000 | Total $'000 |
|---|---|---|---|---|---|
| At 1 April 2004 | 28,000 | 3,728 | 59,063 | (494) | 90,297 |
| Profit for the year | – | – | – | 3,478 | 3,478 |
| At 31 March 2005 | 28,000 | 3,728 | 59,063 | 2,984 | 93,775 |
| At 1 April 2005 | 28,000 | 3,728 | 59,063 | 2,984 | 93,775 |
| Loss for the year | – | – | – | (1,020) | (1,020) |
| Dividends | – | – | – | (2,800) | (2,800) |
| At 31 March 2006 | 28,000 | 3,728 | 59,063 | (836) | 89,955 |

### (c) Share capital

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **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: | | | | |
| Ordinary shares of $0.1 each | **280,000** | **28,000** | 280,000 | 28,000 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## 27 Capital and reserves (Continued)

### (d) Nature and purpose of reserves

*(i) Share premium and contributed surplus*

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 and the nominal amount of the Company's ordinary shares issued pursuant to the Group reorganisation in 2002.

*(ii) Capital reserve*

Capital reserve represented the positive goodwill which arose from the acquisition of business on 18 March 2000 and had previously been taken directly to reserve.

*(iii) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(t).

*(iv) Revaluation reserves*

The revaluation reserves have been set up and are dealt with in accordance with the accounting policies adopted for land and buildings in note 1(h).

*(v) Other reserves*

Yardway Zhuhai follows the accounting principles and relevant financial regulations of the PRC applicable to wholly foreign-owned enterprises ("PRC GAAP – WFOE"), in the preparation of its accounting records and financial statements. Pursuant to the accounting regulations for business enterprises, Yardway Zhuhai is required to appropriate 10% of the profit arrived at in accordance with PRC GAAP – WFOE for each year to a statutory reserve. Profits must be used initially to set off against any accumulated losses. Appropriations to statutory reserve, after offsetting against any accumulated losses, must be made before the distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends, but may be used to set off losses or be converted into paid-in capital.

### (e) Distributability of reserves

At 31 March 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $61,955,000 (2005: $65,775,000). After the balance sheet date the directors proposed a final dividend of 1 cent per ordinary share (2005: 1 cent per ordinary share) amounting to $2,800,000 (2005: $2,800,000). The dividend has not been recognised as a liability at that balance sheet date.

## 28 Financial instruments

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Company's business. These risks are limited by the Group's financial management policies and practices described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and listed equity investments. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain concentration of credit risk as 20% (2005: 11%) and 64% (2005: 50%) of the total trade and other receivables was due from the largest customer and the five largest customers respectively.

Apart from the foregoing, the Group had no significant concentration risks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### (b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

## 28 Financial instruments (Continued)

### (c) Interest rate risk

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

| | 2006 | | | | | | 2005 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Effective interest rate % | Total $'000 | 1 year or less $'000 | 1 – 2 years $'000 | 2 – 5 years $'000 | More than 5 years $'000 | Effective interest rate % | Total $'000 | 1 year or less $'000 | 1 – 2 years $'000 | 2 – 5 years $'000 | More than 5 years $'000 |
| **Repricing dates for assets/ (liabilities) which reprice before maturity** | | | | | | | | | | | | |
| Cash at bank and in hand | 0.5% – 1.8% | 20,903 | 20,903 | - | - | - | 0.3% – 0.7% | 21,469 | 21,469 | – | – | – |
| Bank overdrafts | 8.3% | (122) | (122) | - | - | - | 6.3% | (550) | (550) | – | – | – |
| Bank loans | 6.0% – 7.9% | (19,004) | (11,241) | (774) | (2,645) | (4,344) | 4.1% – 5.8% | (24,683) | (15,341) | (954) | (3,195) | (5,193) |
| | | 1,777 | 9,540 | (774) | (2,645) | (4,344) | | (3,764) | 5,578 | (954) | (3,195) | (5,193) |
| **Maturity dates for assets/ (liabilities) which do not reprice before maturity** | | | | | | | | | | | | |
| Deposits with banks | 1.6% – 3.7% | 64,548 | 64,548 | - | - | - | 1.6% – 1.9% | 48,521 | 48,521 | – | – | – |
| Pledged bank deposits | 1.6% – 3.7% | 9,032 | 9,032 | - | - | - | 1.6% – 1.9% | 6,143 | 6,143 | – | – | – |
| Finance lease receivables | 5.5% | 98 | 98 | - | - | - | 5.5% | 209 | 111 | 98 | – | – |
| Bank loans | 6.2% – 7.4% | (4,931) | (4,931) | - | - | - | 4.1% – 5.8% | (7,411) | (7,411) | – | – | – |
| Obligations under finance leases | 3.5% | (657) | (366) | (255) | (36) | - | 2.5% – 2.7% | (608) | (254) | (180) | (174) | – |
| | | 68,090 | 68,381 | (255) | (36) | - | | 46,854 | 47,110 | (82) | (174) | – |

### (d) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Euros and United States Dollars.

The Group uses certain forward exchange contracts to hedge its foreign currency risk and accounted for these as derivative financial instruments.

## 28 Financial instruments (Continued)

### (e) Sensitivity analysis

In managing interest rate and foreign currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on the Group's earnings.

At 31 March 2006, it is estimated that a general increase of one percentage point in interest rates would increase the Group's profit before tax by approximately $699,000 (2005: $431,000) so far as the effect on interest-bearing financial instruments is concerned.

### (f) Fair values

The fair value of the Group's financial assets and liabilities are not materially different from their carrying amounts shown in the balance sheet.

### (g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in note 28(f) above.

*Interest-bearing loans and borrowings and finance lease liabilities*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

## 29 Commitments

(a) Capital commitments outstanding at 31 March 2006 not provided for in the financial statements were as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Contracted but not provided for | **16,938** | – | **–** | – |

(b) At 31 March 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year | **1,753** | 1,071 | **–** | – |
| After 1 year but within 5 years | **388** | 572 | **–** | – |
| | **2,141** | 1,643 | **–** | – |

The Group is a lessee in respect of 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.

## 30 Contingent liabilities

At 31 March 2006, the Group provided guarantees in favour of third parties (representing customers and potential customers) for performing duties and quality assurance amounting to $Nil (2005: $2,435,000) and $24,638,000 (2005: $13,559,000), respectively.

(Expressed in Hong Kong dollars unless otherwise indicated)

## 31 Material related party transactions

(a) In addition to the related party information disclosed elsewhere in the financial statements, there were the following significant related party transactions carried out with related parties during the year:

| | Note | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| Sales of goods | (i) | **1,225** | 1,243 |
| Rental paid | (ii) | **387** | 387 |
| Consultancy fee paid | (iii) | **580** | 580 |
| Loan from a related party | (iv) | **328** | – |

Notes:

(i) The amount represented the sale of yacht to Island Gypsy Pty Ltd ("Island Gypsy"). The relationships with Island Gypsy were disclosed in the "Connected Transaction" of the directors' report.

(ii) Fong Kit Wah, Alan, a director of the Company, leased a property in the PRC to the Group as the office premises of a representative office of the Group under normal commercial terms.

(iii) The amount represented consultancy fee paid to Inteq Srl, a minority shareholder of a subsidiary.

(iv) The amount represented loan from Island Gypsy for general working capital purpose. The amount is unsecured, interest free and has no fixed terms of repayment.

(b) The amount due from International Yacht Distributors Limited, a shareholder of Yardway Marine of $256,000 (2005: $181,000) is disclosed in the consolidated balance sheet. The amount is unsecured, interest free and has no fixed terms of repayment.

## 32 Comparative figures

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 2.

## 33 Accounting estimates and judgements

### Key sources of estimation uncertainty

Notes 24 and 28 contain information about the assumptions and their risk factors relating to fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

*(a)* *Warranty provisions*

As explained in note 26, the Group makes provisions under the warranties it gives on sale of its yachts taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

*(b)* *Allowances for obsolescence of inventories*

The Group determines the allowances for obsolescence of inventories. These estimates are based on the current market condition and the historical experience on selling goods of similar nature. It could change significantly as a result of changes in market conditions.

*(c)* *Depreciation, amortisation and impairment loss of fixed assets*

Fixed assets are depreciated and amortised on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recovered during the year. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets may be impaired. The Group will review the estimated future cash flows of the fixed assets regularly in order to determine whether impairment loss is required. An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

*(d)* *Impairment loss on trade receivables*

The Group evaluates whether there is any objective evidence that trade receivables are impaired, and determine the amount of impairment loss as a result of the inability of the debtors to make required payments. The Group bases the estimates on the ageing of the trade receivables balance, credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(Expressed in Hong Kong dollars unless otherwise indicated)

## 33 Accounting estimates and judgements (Continued)

### Key sources of estimation uncertainty (Continued)

*(e) Income taxes*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

## 34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 March 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 March 2006 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HKFRS 7 | Financial instruments: disclosures | 1 January 2007 |
| Amendments to HKAS 1 | Presentation of financial statements: capital disclosures | 1 January 2007 |

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 April 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.