



YARDWAY GROUP LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

(Stock Code: 0646)



ANNUAL REPORT 2007



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Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Mr. Fong Kit Wah, Alan (*Chairman and Managing Director*)
Mr. Rourke James Grierson
Ms. Cheung Miu Sin

Non-executive Director:

Mr. Yin Jie

Independent Non-executive Directors:

Mr. Wong Man Chung, Francis
Mr. Chan Ting Kwong
Ms. Fung Siu Wan, Stella

AUDIT COMMITTEE

Mr. Wong Man Chung, Francis (*Chairman*)
Mr. Chan Ting Kwong
Ms. Fung Siu Wan, Stella

REMUNERATION COMMITTEE

Ms. Fung Siu Wan Stella (*Chairman*)
Mr. Wong Man Chung, Francis
Mr. Chan Ting Kwong
Ms. Cheung Miu Sin

NOMINATION COMMITTEE

Mr. Chan Ting Kwong (*Chairman*)
Mr. Wong Man Chung, Francis
Ms. Fung Siu Wan, Stella

COMPANY SECRETARY

Mr. Cheng Siu Kwan

AUDITORS

KPMG
8/F, Prince's Building
10 Chater Road
Central
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman KY1 – 1111
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1st Floor, Prosun Building
2-6 Fui Yiu Kok Street
Tsuen Wan
New Territories
Hong Kong

PRINCIPAL SHARE REGISTRARS

Bank of Butterfield International (Cayman) Ltd.
P.O. Box 705
Butterfield House
68 Fort Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRARS

Standard Registrars Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Bank of China (Hong Kong) Limited

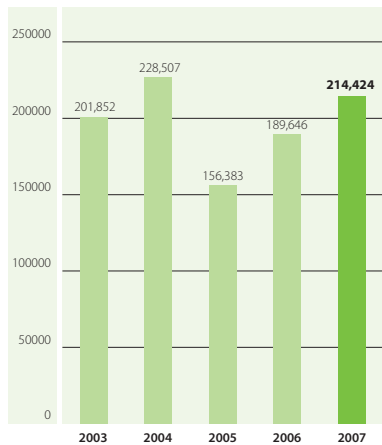
COMPANY WEBSITE

<http://yardway.quamir.com>
and www.yardway.com.hk

Financial Highlights

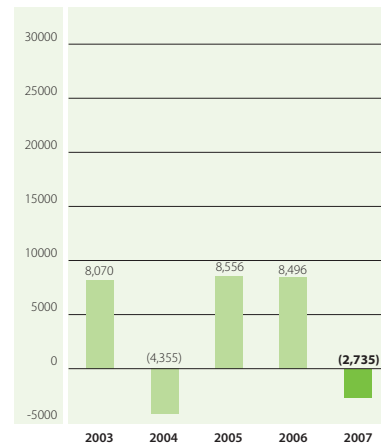
Turnover

HK\$'000



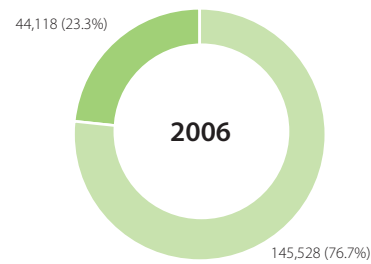
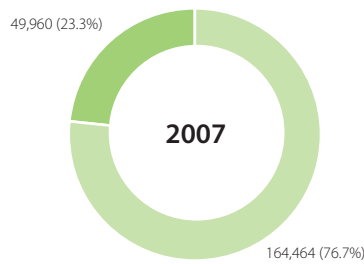
Net Profit/(Loss)

HK\$'000



Turnover Analysis by Business Activities

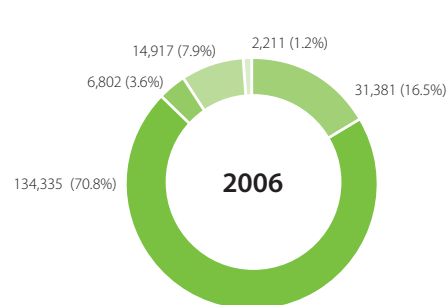
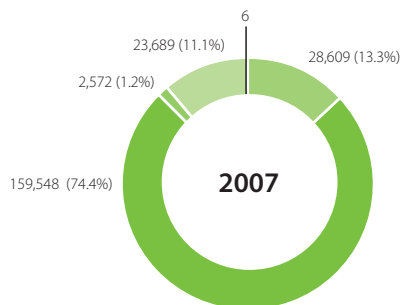
HK\$'000



- Sales and distribution
- Provision of engineering service and sales of spare parts

Turnover Analysis by Geographical Area

HK\$'000



- Hong Kong
- The United States of America
- Europe
- Other parts of the People's Republic of China ("PRC")
- Others

Chairman's Statement

On behalf of the Board of Directors of Yardway Group Limited (the “company”) and its subsidiaries (collectively the “group”), I am presenting the annual report of the company for the year ended 31 March 2007.

RESULTS AND PROSPECTS

The group recorded a turnover for the year ended 31 March 2007 of HK\$214,424,000 which showed an increase of 13% as compared to the previous year. However the profit margin of the group was disappointingly much lower for this fiscal year. The loss attributable to equity shareholders of the company amounted to HK\$2,735,000 (2006: profit of HK\$8,496,000).

It is encouraging to note that the turnover was increased for the year ended 31 March 2007 even though the overall results was not satisfactory for the year under review. The loss was mainly due to the increase in the operating expenses to support the group's business expansion. We have encountered stiff competition from our competitors that required us to beef up expenditure on our sales and marketing efforts. In order to enforce our after sales and technical support, we recruited additional experienced engineering staff to provide value added services to our customers.

As a consequence of the PRC's Eleven Five-year plan of constructing additional new railway lines and new highways, we are confident that the demand for railway maintenance equipment and vehicles will continue to grow. The sales growth for railway maintenance equipment accounted for about 38% in the year under review as compared to that of last year.

Phase 1 of the production processing and assembly plant in Zhuhai, the PRC was completed in the early of 2007 and was already in use for the assembly of specialized welding machines and dredging equipment.

The group's outlook will remain positive and will benefit from China's robust economic growth. The group believes that the PRC will be the market where the group can grasp more business opportunities and where there is more room for growth. We will continue with our already successful policy to enforce our cooperation with our business partners.

APPRECIATION

On behalf of the Board, I would like to thank all of our suppliers, customers, business partners and shareholders who have supported us this year. I also would like to thank all our staff members for their valuable contribution to the group's successes during the past year.

On behalf of the Board
Fong Kit Wah, Alan
Chairman and Managing Director

Hong Kong, 19 July 2007

Management Discussion and Analysis

RESULTS

For the year ended 31 March 2007, the group's turnover amounted to HK\$214,424,000, representing a rise of 13% as compared with last year. Loss attributable to equity shareholders of the company was HK\$2,735,000 (2006: profit of HK\$8,496,000). The loss was mainly attributable to the increase of operating expenses and decrease of gross profit.

Gross profit margin for the year ended 31 March 2007 decreased by 2% when excluding commission income effect of HK\$12,747,000 (2006: HK\$19,306,000) compared to that of last year. Despite the increase in turnover, the decrease in gross profit was mainly due to lower selling price for certain contracts in order to tackle the aggressive competition from our competitors to win a bigger share of our market.

Due to the efficient cash management and higher interest rates, the group recorded a higher interest income of HK\$2,252,000 when compared to that of last year of HK\$1,343,000.

Distribution costs and administrative expenses increased about 24% and 23% respectively as compared to last year. The increase in distribution costs and administrative expenses was mainly attributable to the increase in operating expenses of delegation expenses, depreciation, rental and staff costs to cope with the expansion of the business.

Finance costs was increased by 3% amounting to HK\$1,749,000 for the year ended 31 March 2007. The increase is mainly due to the increase in average interest rate during the year under review.

BUSINESS REVIEW

During the year under review, the group continued to derive most of its revenue from the railway maintenance equipment business. The driving force of the growth of the turnover was mainly due to the strong demand for railway maintenance equipment and the dredging equipment. Given the prospective investment in the PRC railway network, this resulted in more demand for extra maintenance equipment. The group is the exclusive sales and service agents of manufacturers from Europe and USA. We have supplied the advanced technology maintenance equipment to the PRC railway system such as the rail flaw detection car and the track inspection car during the year.

Armed with our experiences and sales network in China, we formed a joint venture with VOSTA LMG B.V. during the year under review. Coupled with VOSTA's know-how and design capabilities in dredgers and dredging equipment technology, we have already won several attractive contracts in China to supply high value dredging equipment to ship builders and large dredging companies in the PRC.

As mentioned in 2006, in order to compensate the lack of contribution from the warranty services for buses in Hong Kong, the group had established a subsidiary in Beijing, the PRC in 2006 as the exclusive agent of commercial vehicle engines and the related technical consultation services for public buses in Beijing.

The group also offered a wide range of airport ground support equipment. During the year, we have supplied airport ground support equipment to various airports in the PRC.

Management Discussion and Analysis

The group also benefited from the appreciation of the value of the premises located in Hong Kong and the PRC. The change in fair value of investment properties was reflected in the profit and loss account.

PROSPECTS

The Directors believe that with the sustained growth of the PRC market, the group's prospects are very promising. The continuous extension of the PRC railway network, rapid growth of the transportation industry and the additional dredging equipment required for the waterways expansions is the growth momentum for the group in the coming year. In order to meet safety requirements, it is critical that advanced technology of railway maintenance equipment and waterway dredging equipment should be procured. The Directors believe that the train speed increases of the PRC railway network and infrastructure construction requires a corresponding increase in demand for the maintenance equipment. We will continue to identify the latest technology of railway maintenance equipment in order to meet the train speed increase of the PRC railway network which in turn demands safe and efficient services.

We are certain that the PRC economy will continue to prosper. The group will grasp the developing opportunities and create added value to reward our shareholders.

APPRECIATION

The Directors and Management would like to take this opportunity to thank all the staff members for their hard work and dedication to the group for the past year.

EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the group as at 31 March 2007 was 130 (2006: 109). The group remunerates its employees based on their performance, work experience and the prevailing market price. The remuneration packages include basic salary, double pay, commission, staff insurance and mandatory provident fund. The group operates a share options scheme for the purpose of providing incentives and rewards to eligible directors and employees of the group to recognise their contribution to the success of the group. The packages are reviewed annually by the management and the Remuneration Committee.

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity

The group continued to maintain a liquid position. As at 31 March 2007, cash and bank balances including pledged fixed deposits of the group were HK\$55,467,000 (2006: HK\$94,483,000). The cash and bank balances consisted of about 53% in US dollars, 16% in Renminbi, 14% in Hong Kong dollars, 14% in Euro, and 3% in other currencies.

Management Discussion and Analysis

As at 31 March 2007, the group recorded total assets of HK\$224,961,000 (2006: HK\$220,470,000) were financed by liabilities of HK\$118,370,000 (2006: HK\$112,073,000), minority interests of HK\$899,000 (2006: HK\$767,000) and shareholders' equity of HK\$105,692,000 (2006: HK\$107,630,000). As at 31 March 2007, the current ratio was 1.47 (2006:1.65), calculated on the basis of current assets of HK\$162,333,000 over current liabilities of HK\$110,663,000.

The group's bank borrowings amounted to HK\$23,977,000 (2006: HK\$24,057,000). The group's borrowings, denominated in Hong Kong dollars, United States dollars and Euro, mainly comprise invoice financing loans and mortgage loans bearing floating interest rates. The group's gearing ratio, based on the total borrowings to total assets, was 11% (2006: 11%).

Foreign exchange exposure and hedging

The group's sales mainly conducted in United States dollars, Renminbi and Hong Kong dollars while the purchases conducted in Euro. As such, the group is exposed to foreign exchange risk. The group made use of forward contracts to hedge its foreign exchange exposure in order to reduce net exposure to currency fluctuations.

Charge on Assets

As at 31 March 2007, the group's leasehold land and buildings and investment properties with an aggregate carrying value amounting to HK\$30,600,000 (2006: HK\$28,500,000) and bank deposits of HK\$10,309,000 (2006: HK\$9,032,000) were pledged with the banks to secure banking facilities granted to the group. Included in pledged bank deposits of RMB3,944,000 (2006: RMB3,083,000) are pledged by the group's wholly owned subsidiary in Zhuhai, the PRC.

CONTINGENT LIABILITIES

At 31 March 2007, the company has undertaken to guarantee certain banking facilities granted to certain subsidiaries to the extent of HK\$238,000,000 (2006: HK\$221,000,000).

As at the balance sheet, the Directors do not consider it probable that a claim will be made against the company under any of the guarantees. The maximum liability of the company at the balance sheet date under the guarantees issued is the facilities drawn down by the subsidiaries totalling HK\$46,372,000 (2006: HK\$58,872,000).

Biographical Details of Directors

DIRECTORS

Executive Directors

Mr. Fong Kit Wah, Alan, aged 50, is the chairman and managing director of the company. He founded the group in 1989 and is responsible for the group's strategic planning and corporate policies of the group. He is also responsible for the sales and marketing functions of the group. Mr. Fong holds a bachelor of engineering degree in Aeronautical Engineering from Feng Chia University, Taiwan (台灣逢甲大學) and a postgraduate diploma in management studies from Hatfield Polytechnic in the United Kingdom. He holds an executive master degree of business administration (高層管理人員工商管理碩士) conferred by Peking University (北京大學), the PRC. Mr. Fong has over 25 years of experience in the trading and manufacturing of transport related equipment industry in which over 19 years of experience is in sales and marketing activities in the PRC.

Mr. Rourke James Grierson, aged 63, is an executive director and the general manager of the group. He is responsible for overseeing the sales and maintenance services of the group in Hong Kong. Mr. Rourke joined the group in June 1995. He has over 36 years of experience in the sales and engineering field. He has extensive experience in engineering, manufacturing and civil construction.

Ms. Cheung Miu Sin, aged 45, is an executive director and the manager of the group's Human Resources and Administration Department. She is responsible for overseeing the group's human resources and office administration affairs. She holds a master degree in business administration from The Open University of Hong Kong and is a member of the Hong Kong Institute of Human Resource Management. She is a Human Resources Management Practitioner (人力資源管理師) registered in the PRC. Ms. Cheung joined the Group in July 1999 and has over 19 years of experience in the field of human resources management.

Biographical Details of Directors

DIRECTORS (CONTINUED)

Independent non-executive directors

Mr. Wong Man Chung, Francis, aged 42, is an independent non-executive director (“INED”). He is also the Chairman of the Audit Committee and members of the Nomination Committee and the Remuneration Committee of the company. He is a Certified Public Accountant (Practising) and has over 20 years of experience in auditing, taxation, management and financial advisory. Mr. Wong is a director of Union Alpha CPA Limited Certified Public Accountants (Practising) which incorporated Francis Wong CPA Co. Limited. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong, an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Society of Chinese Accountants & Auditors. Mr. Wong holds a master degree in management conferred by Guangzhou Jinan University, the PRC. He is also currently INED and either chairman or member of the audit/remuneration committee of Wai Kee Holdings Limited, China Oriental Group Co. Limited and Digital China Holdings Limited, all these companies listed on the Main Board of the Stock Exchange of Hong Kong Limited (“SEHK”). He was once the INED of Enviro Energy International Holdings Limited (formerly known as Sys Solutions Holdings Limited), a company listed on the Growth Enterprise Market of the SEHK.

Mr. Chan Ting Kwong, aged 48, is an INED. He is the Chairman of the Nomination Committee and members of the Audit Committee and the Remuneration Committee of the company. He has over 22 years of experience in the legal field and holds a joint-honours degree in law and sociology from the University of Keele, England and a master degree in criminology from the University of Hong Kong. He is currently the senior associate of Lee Chan Cheng Solicitors.

Ms. Fung Siu Wan, Stella, aged 52, is an INED. She is also the Chairman of the Remuneration Committee and members of the Audit Committee and Nomination Committee of the company. She has extensive experience in the fields of both commercial and investment banking. Ms. Fung has been in the banking industry for over 20 years. She was a former Regional Manager of Overseas Trust Bank Limited and a former executive director and general manager of Dao Heng Securities Limited and Dao Heng Commodities Limited. She is currently the managing director of Fook Ming Tong Chinese Medical Center. She is also currently INED and either chairman or member of the remuneration/audit committee of Neo-Neon Holdings Limited, a company listed on the Main Board of the SEHK.

Non-executive director

Mr. Yin Jie, aged 39, is a non-executive director. He holds a bachelor degree in Management Engineering from Beijing Institute of Technology, the PRC and a master degree in Economic from the Central University of Finance and Economics, the PRC. He is currently the general manager of Finance Department of China National Aviation Corporation (Group) Limited. He has over 13 years of experience in the field of finance and accounting. He is a Certified Public Accountants registered in the PRC, Chinese Certified Public Valuer and Chinese Certified Public Tax Consultant.

Report of the Directors

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 March 2007.

PRINCIPAL PLACE OF BUSINESS

Yardway Group Limited (“the company”) is a company incorporated in the Cayman Islands and has its principal place of business at 1/F Prosun Building, 2-6 Fui Yiu Kok Street, Tsuen Wan, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 15 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the company and its subsidiaries (“the group”) during the financial year are set out in note 12 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the group’s sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the group’s total	
	Sales	Purchases
The largest customer	11%	
Five largest customers in aggregate	41%	
The largest supplier		10%
Five largest suppliers in aggregate		47%

At no time during the year have the directors, their associates or any shareholder of the company (which to the knowledge of the directors owns more than 5% of the company’s share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The loss of the group for the year ended 31 March 2007 and the state of the company’s and the group’s affairs as at that date are set out in the financial statements on pages 31 to 97.

Report of the Directors

TRANSFER TO RESERVES

Loss attributable to shareholders, before dividends, of HK\$2,603,000 (2006: profit of HK\$8,581,000) have been transferred to reserves. Other movements in reserves are set out in note 27 to the financial statements.

The directors do not recommend the payment of a final dividend for the year ended 31 March 2007 (2006: HK1 cent per ordinary share).

FIXED ASSETS

Details of movements in fixed assets of the group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the company during the year are set out in note 27 to the financial statements. Shares were issued during the year on exercise of share options.

There were no purchases, sales or redemptions of the company's listed securities by the company or any of its subsidiaries during the year.

DIRECTORS

The directors during the financial year were:

Executive directors

Fong Kit Wah, Alan (*Chairman*)
Rourke James Grierson
Cheung Miu Sin

Non-executive director

Yin Jie

Independent non-executive directors

Wong Man Chung, Francis
Chan Ting Kwong
Fung Siu Wan, Stella

In accordance with article 108(A) of the company's articles of association, Mr Yin Jie, Mr Wong Man Chung, Francis and Mr Chan Ting Kwong retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors entered into a service contract with the company for an initial term of three years commencing on 1 March 2002 renewable automatically for successive terms of one year each commencing from the day after the expiry of the then current term of the appointment, unless terminated by not less than three month's notice in writing serving by either party.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

The directors of the company who held office at 31 March 2007 had the following interests in the shares of the company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests required to be kept under section 352 of the SFO:

(i) Interests in issued shares of the company

Name of director	Ordinary shares of HK\$0.1 each				Total number of shares held	% of total issued shares
	Personal interests	Family interests	Corporate interests	Other interests		
Fong Kit Wah, Alan	2,732,000	–	131,000,000 (Note)	–	133,732,000	47.62%
Wong Man Chung, Francis	100,000	–	–	–	100,000	0.04%
Chan Ting Kwong	48,000	–	–	–	48,000	0.02%
Fung Siu Wan, Stella	100,000	–	–	–	100,000	0.04%

Note: These shares are registered in the name of and beneficially owned by Speedway Investment Holding Limited ("Speedway"), a company incorporated in the British Virgin Islands ("BVI"), and whose entire issued share capital is wholly-owned by Fong Kit Wah, Alan.

(ii) Interests in a subsidiary of the company

Fong Kit Wah, Alan also has beneficial interests in his personal capacity in 5,000 non-voting deferred shares of HK\$1 each in Yardway Limited and 75% of the issued share capital in Yardway Holdings Limited which holds 5,100 non-voting deferred shares of HK\$1 each in Yardway Limited.

(iii) Interests in underlying shares

The directors of the company have been granted options under the company's share option scheme, details of which are set out in the section "Share option scheme" below.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (CONTINUED)

Apart from the foregoing, none of the directors of the company or any of their spouses or children under eighteen years of age has interests in the shares and underlying shares of the company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEME

The company has a share option scheme which was adopted on 28 March 2002 whereby the directors of the company are authorised, at their discretion, to invite employees of the group, including directors of any company in the group, to take up options to subscribe for shares of the company. The purpose of the scheme is to provide an opportunity for employees of the group to acquire an equity participation in the company and to encourage them to work towards enhancing the value of the company and its shares for the benefit of the company and its shareholders as a whole. The share option scheme shall be valid and effective for a period of ten years ending on 27 March 2012, after which no further options will be granted.

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on The 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 in four equal instalments with the first instalment vest from the date of grant. The second, third and fourth instalments vest from one, two and three years after the date of grant respectively. The options are exercisable after the vesting date but within a period of five years from the date of grant.

The total number of securities available for issue under the share option scheme as at 31 March 2007 was 17,150,000 shares (including options for 10,750,000 shares that have been granted but not yet lapsed or exercised) which represents 6.11% of the issued share capital of the company at 31 March 2007. The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the company's ordinary shares in issue.

Offer of an option shall have been accepted when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance of HK\$1 is received within such time as may be specified in the offer, which shall not be later than 7 days from the date of offer. The share option scheme will expire on 27 March 2012.

At 31 March 2007, the directors and employees of the company had the following interests in options to subscribe for shares of the company (market value per share at 31 March 2007 was HK\$0.52) granted at nominal consideration under the share option scheme of the company. The options are unlisted. Each option gives the right to subscribe for one ordinary share of HK\$0.1 each of the company.

Report of the Directors

SHARE OPTION SCHEME (CONTINUED)

Name or category of participant	No. of options outstanding at the beginning of the year	No. of options granted during the year	No. of shares		Date granted	Period during which options are exercisable	Exercise price per share	Market value per share at date of grant	*Market value per share at date of exercise
			acquired on exercise of options during the year	No. of options outstanding at the year end					
Directors									
Fong Kit Wah, Alan	–	650,000	–	650,000	13 November 2006	13 November 2006 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	650,000	–	650,000	13 November 2006	13 November 2007 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	650,000	–	650,000	13 November 2006	13 November 2008 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	650,000	–	650,000	13 November 2006	13 November 2009 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
Rourke James Grierson	–	250,000	(100,000)	150,000	13 November 2006	13 November 2006 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	HK\$ 0.53
	–	250,000	–	250,000	13 November 2006	13 November 2007 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	250,000	–	250,000	13 November 2006	13 November 2008 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	250,000	–	250,000	13 November 2006	13 November 2009 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
Cheung Miu Sin	–	250,000	(100,000)	150,000	13 November 2006	13 November 2006 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	HK\$ 0.53
	–	250,000	–	250,000	13 November 2006	13 November 2007 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	250,000	–	250,000	13 November 2006	13 November 2008 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	250,000	–	250,000	13 November 2006	13 November 2009 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–

Report of the Directors

SHARE OPTION SCHEME (CONTINUED)

Name or category of participant	No. of options outstanding at the beginning of the year	No. of options granted during the year	No. of shares		Date granted	Period during which options are exercisable	Exercise price per share	Market value per share at date of grant	*Market value per share at date of exercise
			acquired on exercise of options during the year	No. of options outstanding at the year end					
Directors (continued)									
Fung Siu Wan, Stella	–	250,000	(100,000)	150,000	13 November 2006	13 November 2006 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	HK\$ 0.53
	–	250,000	–	250,000	13 November 2006	13 November 2007 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	250,000	–	250,000	13 November 2006	13 November 2008 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	250,000	–	250,000	13 November 2006	13 November 2009 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
Wong Man Chung, Francis	–	250,000	(100,000)	150,000	13 November 2006	13 November 2006 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	HK\$ 0.53
	–	250,000	–	250,000	13 November 2006	13 November 2007 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	250,000	–	250,000	13 November 2006	13 November 2008 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	250,000	–	250,000	13 November 2006	13 November 2009 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
Chan Ting Kwong	–	250,000	(100,000)	150,000	13 November 2006	13 November 2006 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	HK\$ 0.53
	–	250,000	–	250,000	13 November 2006	13 November 2007 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	250,000	–	250,000	13 November 2006	13 November 2008 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	250,000	–	250,000	13 November 2006	13 November 2009 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–

Report of the Directors

SHARE OPTION SCHEME (CONTINUED)

Name or category of participant	No. of options outstanding at the beginning of the year	No. of options granted during the year	No. of shares		Date granted	Period during which options are exercisable	Exercise price per share	Market value per share at date of grant	*Market value per share at date of exercise
			on exercise of options during the year	options outstanding at the year end					
Directors (continued)									
Yin Jie	–	250,000	–	250,000	13 November 2006	13 November 2006 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	250,000	–	250,000	13 November 2006	13 November 2007 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	250,000	–	250,000	13 November 2006	13 November 2008 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
	–	250,000	–	250,000	13 November 2006	13 November 2009 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	–
Employees	–	3,000,000	(350,000)	2,650,000	13 November 2006	13 November 2006 to 12 November 2011	HK\$ 0.21	HK\$ 0.21	HK\$ 0.53

The options granted to the directors are registered under the names of the directors who are also the beneficial owners.

* Being the weighted average closing price of the company's ordinary shares immediately before the dates on which the options were exercised, where applicable.

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 1(p)(ii) and note 24 to the financial statements respectively.

Apart from the foregoing, at no time during the year was the company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the company to acquire benefits by means of acquisition of shares in or debentures of the company or any other body corporate.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

The company has been notified of the following interests in the company's issued shares at 31 March 2007 amounting to 5% or more of the ordinary shares in issue:

	Ordinary shares of HK\$0.1 each			Percentage of total issued shares
	Registered shareholders	Corporate interests	Total number of ordinary shares held	
Goodwell Group Invest Limited ("Goodwell") (note (a))	64,576,000	–	64,576,000	22.99%
China National Aviation Corporation (Group) Limited ("CNAC") (note (a))	–	64,576,000	64,576,000	22.99%
China National Aviation Holding Company (note (a))	–	64,576,000	64,576,000	22.99%
Speedway (note (b))	131,000,000	–	131,000,000	46.64%
Fong Kit Wah, Alan (note (b))	2,732,000	131,000,000	133,732,000	47.62%

Notes:

- (a) These shares are registered in the name of and beneficially owned by Goodwell, a company incorporated in the BVI, and whose entire issued share capital is owned by CNAC, a company incorporated in Hong Kong.

CNAC is ultimately wholly-owned by China National Aviation Holding Company, a state-owned enterprise established in the PRC.

- (b) These shares are registered in the name of and beneficially owned by Speedway and whose entire issued capital is wholly-owned by Fong Kit Wah, Alan.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the company.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the company and within the knowledge of the directors of the company as at the date of this annual report, the company has maintained the prescribed public float under the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 31 to the financial statements, no contract of significance to which the company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the company's articles of association or the laws of the Cayman Islands which would oblige the company to offer new shares on a pro rata basis to its existing shareholders.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the company and the group as at 31 March 2007 are set out in note 22 to the financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on page 100 of the annual report.

PROPERTIES

Particulars of the major properties and property interests of the group are shown on pages 98 and 99 of the annual report.

RETIREMENT SCHEMES

As from 1 December 2000, the group operates a Mandatory Provident Fund Scheme (the "MPF Scheme"), managed by an independent approved MPF trustee, under the requirements of the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance.

The MPF Scheme is a defined contribution retirement scheme. Under the MPF Scheme, the employer and its employees are each required to make contributions to the Scheme at 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK\$20,000.

The employees in the group's PRC subsidiaries are members of the state-managed retirement schemes. The PRC subsidiaries are required to contribute a specified percentage of their payroll to these schemes. The only obligation of the group with respect to these retirement schemes is to make the specified contributions.

Report of the Directors



CONFIRMATION OF INDEPENDENCE

The company has received from each of the INED an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the INED to be independent.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Fong Kit Wah, Alan
Chairman

Hong Kong, 19 July 2007

Corporate Governance Report

The Board of Directors (“the Board”) of the company is pleased to present this Corporate Governance Report in the group’s annual report for the year ended 31 March 2007.

The manner in which the principles and code provisions in the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) are applied and implemented are explained in the following parts of this Corporate Governance Report:

CORPORATE GOVERNANCE PRACTICES

The group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The company recognises the importance of good corporate governance to the company’s healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the company’s needs.

The company’s corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

The company has complied with all the code provisions set out in the CG Code save for certain deviations from the code provisions in respect of A.2.1 and A.4.1, details of which will be explained below.

The company has also put in place certain recommended best practices as set out in the CG Code.

The company reviews its corporate governance practices regularly to ensure compliance with the CG Code.

THE BOARD

RESPONSIBILITIES

The Board is responsible for the leadership and control of the company and oversees the group’s businesses, strategic decisions and performances. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the group. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their respective terms of reference.

All directors have carried out their duties in good faith and in compliance with the standards of applicable laws and regulations, and have acted in the interests of the company and its shareholders at all times.

The company has arranged for appropriate insurance cover for directors’ and officers’ liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

Corporate Governance Report

BOARD COMPOSITION

The company has adopted the recommended best practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive directors.

The Board of the company comprises the following directors:

Executive Directors:

Fong Kit Wah, Alan (*Chairman and Managing Director*)

Rourke James Grierson

Cheung Miu Sin (*Member of Remuneration Committee*)

Non-Executive Director:

Yin Jie

Independent Non-Executive Directors:

Wong Man Chung, Francis (*Chairman of Audit Committee and Member of Remuneration Committee and Nomination Committee*)

Chan Ting Kwong (*Chairman of Nomination Committee and Member of Audit Committee and Remuneration Committee*)

Fung Siu Wan, Stella (*Chairman of Remuneration Committee and Member of Audit Committee and Nomination Committee*)

The list of directors (by category) is also disclosed in all corporate communications issued by the company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

None of the members of the Board is related to one another.

During the year ended 31 March 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The company has received written annual confirmation from each independent non-executive director of his/her independence pursuant to the requirements of the Listing Rules. The company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

All directors, including non-executive director and independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive directors are invited to serve on the Audit, Remuneration and Nomination Committees of the company.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The company does not have the position of Chief Executive Officer but have the position of Managing Director. Mr. Fong Kit Wah, Alan is the Chairman and Managing Director of the company. The Board believes that vesting the roles of both Chairman and Managing Director in the same person provides the company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The company will continue to review the effectiveness of the group's corporate governance structure and consider whether any changes, including the separation of roles of Chairman and Managing Director, are necessary.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

In accordance with the company's Articles of Association which were amended by a special resolution at the annual general meeting held on 22 August 2005 for the purpose of compliance with the CG Code, all directors of the company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. Any new director appointed as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting after appointment.

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

There is no service contract between the company and Mr. Yin Jie, the non-executive director, Mr. Wong Man Chung, Francis, Mr. Chan Ting Kwong and Ms. Fung Siu Wan, Stella, the independent non-executive directors. They were not appointed for any specific length of service with the company.

Although the non-executive directors are not appointed for a specific term, all directors of the company are subject to retirement by rotation once every three years.

The procedures and process of appointment, re-election and removal of directors are laid down in the company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Nomination Committee

The Nomination Committee comprises three members, namely Mr. Chan Ting Kwong (Chairman), Mr. Wong Man Chung, Francis and Ms. Fung Siu Wan, Stella, all of them are independent non-executive directors.

Corporate Governance Report

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessment of the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the company's needs and other relevant statutory requirements and regulations.

The Nomination Committee met once during the year ended 31 March 2007 and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the company and the attendance records are set out under "Directors' Attendance Records" on page 24.

In accordance with the company's Articles of Association, Mr. Yin Jie, Mr. Wong Man Chung, Francis and Mr. Chan Ting Kwong shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the company.

A circular containing detailed information of the directors standing for re-election at the forthcoming annual general meeting would be sent to the shareholders.

INDUCTION AND CONTINUING DEVELOPMENT FOR DIRECTORS

Each newly appointed director shall receive comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has proper understanding of the business and operations of the company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The company shall consider to engage external legal and other professional advisers for providing professional briefing and training programmes to the directors. Continuing briefings and professional development to directors will be arranged whenever necessary.

BOARD MEETINGS

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings and reasonable notice is generally given for other Board meetings. For committee meetings, notice/agenda are served/circulated in accordance with the required notice period stated in the relevant terms of reference.

Corporate Governance Report

Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Financial Controller, being also the Company Secretary, attended all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the company.

The Company Secretary/secretary of the Committee is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

The company's Articles of Association contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

Directors' Attendance Records

During the year ended 31 March 2007, four regular Board meetings were held approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the company and four Audit Committee meetings, two Remuneration Committee meetings and one Nomination Committee meeting were held. The attendance rate was 100%.

The attendance records of each director at the meetings of the Board, Audit Committee, Remuneration Committee and Nomination Committee during the year ended 31 March 2007 are set out below:

Name of Directors	Board	Attendance/Number of Meetings		
		Audit Committee	Remuneration Committee	Nomination Committee
<i>Executive Directors:</i>				
Fong Kit Wah, Alan	4/4	–	–	–
Rourke James Grierson	4/4	–	–	–
Cheung Miu Sin	4/4	–	2/2	–
<i>Non-Executive Director:</i>				
Yin Jie	4/4	–	–	–
<i>Independent Non-Executive Directors:</i>				
Wong Man Chung, Francis	4/4	4/4	2/2	1/1
Chan Ting Kwong	4/4	4/4	2/2	1/1
Fung Siu Wan, Stella	4/4	4/4	2/2	1/1

Note: Ms. Cheung Miu Sin has also attended all the Audit Committee meetings and the Nomination Committee meeting.

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS

The company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 March 2007.

The company has also established written guidelines on no less exacting terms than the Model Code (the “Employees Written Guidelines”) for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the company.

DELEGATION BY THE BOARD

The Board reserves for its decisions all major matters of the company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the company’s expense, upon making request to the Board.

The day-to-day management, administration and operation of the company are delegated to the Managing Director and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has established three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the company’s affairs. All Board committees of the company are established with defined written terms of reference which are posted on the company’s website and are available to shareholders upon request.

The Board also has the full support of the Managing Director and the senior management to discharge its responsibilities.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The company has established a formal and transparent procedure for formulating policies on remuneration and senior management of the group. Details of the remuneration of each of the directors of the company for the year ended 31 March 2007 are set out in note 7 to the financial statements.

Corporate Governance Report

REMUNERATION COMMITTEE

The Remuneration Committee comprises four members, namely Ms. Fung Siu Wan, Stella (Chairman), Ms. Cheung Miu Sin, Mr. Wong Man Chung, Francis and Mr. Chan Ting Kwong, the majority of them are independent non-executive directors.

The primary objectives of the Remuneration Committee include:

- (a) To make recommendations on the establishment of procedures for developing remuneration policy and structure of the executive directors and the senior management, such policy shall ensure that no director or any of his/her associates will participate in deciding his/her own remuneration;
- (b) To make recommendations on the remuneration packages of the executive directors and the senior management;
- (c) To review and approve the remuneration packages of the executive directors and the senior management by reference to the performance of the individual and the company as well as market practice and conditions; and
- (d) To review and approve the compensation arrangements for the executive directors and the senior management.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman and the Managing Director of the company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee has reviewed the remuneration policy and organisational structure of the company, and the remuneration packages of the executive directors and the senior management for the year under review.

The Remuneration Committee held two meetings during the year ended 31 March 2007 and the attendance records are set out under "Directors' Attendance Records" on page 24.

ACCOUNTABILITY AND AUDIT

DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the company for the year ended 31 March 2007.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the company put to the Board for approval.

Corporate Governance Report

INTERNAL CONTROLS

The Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the group for the year ended 31 March 2007 and the company has engaged an external professional advisor to conduct a review of the effectiveness of the internal control system of the group relating to corporate control environment and revenue for the year ended 31 March 2007. Such review covered the financial, operational, compliance and risk management aspects of the group.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' investments and company's assets and reviewing the effectiveness of such system on an annual basis.

The internal control system of the group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the group. The senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

AUDIT COMMITTEE

The Audit Committee comprises three members, namely Mr. Wong Man Chung, Francis (Chairman), Mr. Chan Ting Kwong and Ms. Fung Siu Wan, Stella and all of them are independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the company's existing external auditor.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any), internal auditor or external auditor before submission to the Board.
- (b) To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor.
- (c) To review the adequacy and effectiveness of the company's financial reporting system, internal control system and risk management system and associated procedures.

During the year under review, the Audit Committee reviewed the group's interim results and interim report, annual results and annual report, the financial reporting and compliance procedures and risk management review and processes and the re-appointment of the external auditor.

The company's annual results for the year ended 31 March 2007 has been reviewed by the Audit Committee.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the company's ability to continue as a going concern.

Corporate Governance Report

There is no different view taken by the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of external auditor.

The Audit Committee held four meetings during the year ended 31 March 2007 and the attendance records are set out under “Directors’ Attendance Records” on page 24.

EXTERNAL AUDITOR AND AUDITOR’S REMUNERATION

The statement of the external auditor of the company about their reporting responsibilities on the financial statements is set out in the “Independent Auditor’s Report” on pages 29 to 30.

The remuneration paid to the external auditor of the company, KPMG, in respect of audit services and non-audit services for the year ended 31 March 2007 amounted to HK\$900,000 and HK\$47,000 respectively. The said non-audit services relate to the taxation fee for one of the company’s subsidiary.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The general meetings of the company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Audit Committee, Remuneration Committee and Nomination Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are available to answer questions at the shareholders’ meetings.

The company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the company’s developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the company maintains a website at www.yardway.com.hk, where up-to-date information and updates on the company’s business developments and operations, financial information, corporate governance practices and other information are posted. Investors may write directly to the company at its principal place of business in Hong Kong or via email to ywl@yardway.com.hk for any inquiries.

SHAREHOLDERS’ RIGHTS

To safeguard the shareholders’ interests and rights, separate resolutions are proposed at shareholders’ meetings on each substantial issue, including the election of individual directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders’ meetings at which voting is taken on a poll are contained in the company’s Articles of Association. Details of such rights to demand a poll were included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders’ meeting and posted on the websites of the company and of The Stock Exchange of Hong Kong Limited.

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF YARDWAY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Yardway Group Limited ("the company") set out on pages 31 to 97, which comprise the consolidated and company balance sheets as at 31 March 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report



OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2007 and of the group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

19 July 2007

Consolidated Income Statement

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

	Note	2007 \$'000	2006 \$'000
Turnover	3 & 12	214,424	189,646
Cost of sales/services		(175,595)	(145,554)
Gross profit		38,829	44,092
Other revenue	4	4,380	3,990
Other net income/(loss)	4	365	(1,549)
Distribution costs		(20,804)	(16,765)
Administrative expenses		(24,753)	(20,187)
Net surplus on revaluation	13(b)	1,030	2,194
(Loss)/profit from operations		(953)	11,775
Finance costs	5(a)	(1,749)	(1,693)
(Loss)/profit before taxation	5	(2,702)	10,082
Income tax	6(a)	99	(1,501)
(Loss)/profit for the year		(2,603)	8,581
Attributable to:	27		
Equity shareholders of the company		(2,735)	8,496
Minority interests		132	85
(Loss)/profit for the year		(2,603)	8,581
Dividend payable to equity shareholders of the company attributable to the year:	10		
Final dividend proposed after the balance sheet date		–	2,800
(Loss)/earnings per share	11		
Basic		(1.0) cent	3.0 cents
Diluted		(1.0) cent	3.0 cents

The notes on pages 38 to 97 form part of these financial statements.

Consolidated Balance Sheet

at 31 March 2007
(Expressed in Hong Kong dollars)

	Note	2007 \$'000	2006 \$'000
Non-current assets			
Fixed assets	13(a)		
– Investment properties		22,600	21,410
– Other property, plant and equipment		38,773	26,739
– Interest in leasehold land held for own use under operating leases		1,018	984
		62,391	49,133
Deferred tax assets	25(b)	237	–
		62,628	49,133
Current assets			
Trading securities – listed in Hong Kong		542	686
Inventories	17	21,971	14,534
Trade and other receivables	18	82,411	59,640
Current taxation recoverable	25(a)	1,942	1,896
Finance lease receivable	14	–	98
Pledged bank deposits	19	10,309	9,032
Cash and cash equivalents	20	45,158	85,451
		162,333	171,337
Current liabilities			
Trade and other payables	21	93,034	87,157
Bank loans and overdrafts	22	17,008	16,294
Obligations under finance leases	23	312	366
Current taxation	25(a)	192	16
Provision for warranty	26	117	99
		110,663	103,932
Net current assets		51,670	67,405
Total assets less current liabilities		114,298	116,538

Consolidated Balance Sheet

at 31 March 2007
(Expressed in Hong Kong dollars)

	Note	2007 \$'000	2006 \$'000
Non-current liabilities			
Bank loans and overdrafts	22	6,969	7,763
Obligations under finance leases	23	267	291
Deferred tax liabilities	25(b)	471	87
		<hr/> 7,707	8,141
NET ASSETS		<hr/> 106,591	108,397
CAPITAL AND RESERVES	27(a)		
Share capital		28,085	28,000
Reserves		77,607	79,630
Total equity attributable to equity shareholders of the company		<hr/> 105,692	107,630
Minority interests		899	767
TOTAL EQUITY		<hr/> 106,591	108,397

Approved and authorised for issue by the board of directors on 19 July 2007

Fong Kit Wah, Alan
Director

Rourke James Grierson
Director

The notes on pages 38 to 97 form part of these financial statements.

Balance Sheet

at 31 March 2007
(Expressed in Hong Kong dollars)

	Note	2007 \$'000	2006 \$'000
Non-current asset			
Interest in subsidiaries	15	92,007	90,201
Current assets			
Trade and other receivables	18	137	181
Cash and cash equivalents	20	45	39
		182	220
Current liabilities			
Trade and other payables	21	436	466
Net current liabilities		(254)	(246)
NET ASSETS		91,753	89,955
CAPITAL AND RESERVES	27(b)		
Share capital		28,085	28,000
Reserves		63,668	61,955
TOTAL EQUITY		91,753	89,955

Approved and authorised for issue by the board of directors on 19 July 2007

Fong Kit Wah, Alan
Director

Rourke James Grierson
Director

The notes on pages 38 to 97 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

	Note	2007 \$'000	2006 \$'000
Total equity at 1 April		108,397	102,276
Net income recognised directly in equity:			
Surplus on revaluation of land and buildings held for own use, net of deferred tax	27	2,413	294
Exchange differences on translation of financial statements of PRC subsidiaries	27	678	46
Net income for the year recognised directly in equity		3,091	340
Net (loss)/profit for the year	27	(2,603)	8,581
Total recognised income and expense for the year		488	8,921
Attributable to:			
– Equity shareholders of the company		356	8,836
– Minority interests		132	85
		488	8,921
Dividends declared and approved during the year	27	(2,800)	(2,800)
Movement in equity arising from capital transactions:			
Shares issued under share option scheme	27	179	–
Equity-settled share-based transactions	27	327	–
		506	–
Total equity at 31 March	27	106,591	108,397

The notes on pages 38 to 97 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

	Note	2007 \$'000	2006 \$'000
Operating activities			
(Loss)/profit before taxation		(2,702)	10,082
Adjustments for:			
– Net surplus on revaluation		(1,030)	(2,194)
– Depreciation		3,628	3,218
– Amortisation of land lease premium		20	27
– Finance costs		1,749	1,693
– Dividend income from listed securities		(22)	(20)
– Interest income		(2,252)	(1,343)
– Net loss/(gain) on sale of fixed assets		317	(482)
– Net realised and unrealised gains on trading securities		(168)	(28)
– Foreign exchange (gain)/loss		(1,438)	1,160
– Equity-settled share-based payment expenses		327	–
Operating (loss)/profit before changes in working capital		(1,571)	12,113
Increase in inventories		(7,437)	(4,850)
Increase in trade and other receivables		(22,771)	(11,142)
Decrease in finance lease receivable		98	111
Increase in trade and other payables		2,981	35,499
Increase/(decrease) in provision for warranty		18	(44)
Cash (used in)/generated from operations		(28,682)	31,687
Tax paid			
– Hong Kong Profits Tax paid		(124)	(252)
– The People's Republic of China (“PRC”) income tax paid		(124)	(139)
		(248)	(391)
Net cash (used in)/generated from operating activities		(28,930)	31,296

Consolidated Cash Flow Statement

for the year ended 31 March 2007
(Expressed in Hong Kong dollars)

	Note	2007 \$'000	2006 \$'000
Investing activities			
Payment for land use right		–	(308)
Payment for the purchase of fixed assets		(10,135)	(2,799)
Proceeds from sale of fixed assets		1,099	3,297
Payment for purchase of trading securities		(542)	(741)
Proceeds from sale of trading securities		854	447
Increase in pledged bank deposits		(1,277)	(2,889)
Interest received		2,252	1,343
Dividends received from listed securities		22	20
Net cash used in investing activities		(7,727)	(1,630)
Financing activities			
Proceeds from hire purchase loan		–	330
Capital element of finance lease rentals paid		(878)	(281)
Proceeds from new bank loans		33,476	33,661
Repayment of bank loans		(34,823)	(41,820)
Proceeds from shares issued under share option scheme		179	–
Interest paid		(1,657)	(1,640)
Interest element of finance lease rentals paid		(92)	(53)
Dividends paid to equity shareholders of the company		(2,800)	(2,800)
Net cash used in financing activities		(6,595)	(12,603)
Net (decrease)/increase in cash and cash equivalents		(43,252)	17,063
Cash and cash equivalents at 1 April		85,329	69,440
Effect of foreign exchange rates changes		1,692	(1,174)
Cash and cash equivalents at 31 March	20	43,769	85,329

The notes on pages 38 to 97 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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 SEHK. 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 first effective or available for early adoption for the current accounting period of the group and the company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2007 comprise the company and its subsidiaries (together referred to as “the group”) and the group’s interest in jointly controlled entities.

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

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

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 32.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a 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 represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the company, whether directly or indirectly through subsidiaries, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet 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)).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual agreement between the group or company and other parties. Where the contractual arrangement establishes that the group or company and one or more of the other parties share joint control over the economic activity of the entity. 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.

Unrealised profits and losses resulting from transactions between the group and its jointly controlled entities are eliminated to the extent of the group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(e) Investment in equity securities

Investments in equity securities held for trading are classified as current assets and are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs which are recognised in profit or loss as incurred. 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.

(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).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(g) Investment property (continued)

When the group 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

The following properties 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:

- land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 1(i)).

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.

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

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:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years from the date of completion.
- Furniture, fixtures and equipment 5 years
- Motor vehicles 3 to 5 years

No depreciation is provided in respect of construction in progress.

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

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(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 exception:

- 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.

Notes to the Financial Statements

(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 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 profit or loss 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 (see note 1(g)).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of assets

(i) *Impairment of trade and other receivables*

Impairment losses for bad and doubtful debts are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted where the effect of discounting is material. Impairment losses are reversed if in a subsequent period the amount of the impairment loss decreases.

(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);
- prepaid interests in leasehold land classified as being held under an operating lease; and
- investments in subsidiaries.

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

- 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).

- 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of assets (continued)

(ii) *Impairment of other assets (continued)*

- 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.

(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)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(j)).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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 the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(r)(i), trade and other payables are subsequently 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.

(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 retirement 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 options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits (continued)

(ii) Share based payments (continued)

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 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).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (continued)

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.

(r) Financial guarantees issued, provisions and contingent liabilities

(i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary to the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(r)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the group under the guarantee, and (ii) the amount of that claim on the group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(r) Financial guarantees issued, provisions and contingent liabilities (continued)

(ii) *Other provisions and contingent liabilities*

Provisions are recognised for liabilities of other 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(s) Revenue recognition (continued)

(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 on an accrual basis in accordance with the terms of the relevant agreement.

(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 PRC and 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.

On disposal of a PRC and foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that operation is included in the calculation of the profit or loss on disposal.

(u) Borrowing costs

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(v) Related parties

For the purposes of these financial statements, a party is considered to be related to the group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the group;
- (ii) the group and the party are subject to common control;
- (iii) the party is an associate of the group or a joint venture in which the group is a venturer;
- (iv) the party is a member of key management personnel of the group or the group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(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, trade 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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 first effective or available for early adoption for the current accounting period of the group.

Note 1 summarises the accounting policies of the group after the adoption of these developments to the extent that they are relevant to the group. 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 33).

Financial guarantees issued (Amendments to HKAS 39, Financial instruments: Recognition and measurement: Financial guarantee contracts)

In prior years, financial guarantees issued by the company in respect of the banking facilities of its subsidiaries were disclosed as contingent liabilities in accordance with HKAS 37, Provisions, contingent liabilities and contingent assets. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon. The annual fee receivable by the company in respect of the issue of the guarantees is recognised in the company's income statement on an accrual basis. No guarantees were issued in respect of any third party borrowings.

With effect from 1 April 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37. Further details of the new policy are set out in note 1(r)(i).

This change in accounting policy has no material financial effect on the consolidated and company financial statements. Details of the financial guarantees currently issued by the company are set out in note 30.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

3 TURNOVER

The principal activities of the group are trading of vehicles, machinery, equipment, yachts, 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:

	2007 \$'000	2006 \$'000
Sales of goods	186,344	159,125
Service income	15,333	11,215
Commission income	12,747	19,306
	<u>214,424</u>	<u>189,646</u>

4 OTHER REVENUE AND NET INCOME/(LOSS)

	2007 \$'000	2006 \$'000
<i>Other revenue</i>		
Gross rental income from investment properties	1,739	1,740
Interest income	2,252	1,343
Royalty income	–	390
Dividend income from listed securities	22	20
Others	367	497
	<u>4,380</u>	<u>3,990</u>
<i>Other net income/(loss)</i>		
Net exchange gain/(loss)	514	(2,059)
Net (loss)/gain on sale of fixed assets	(317)	482
Net gain on sale of trading securities	106	1
Net unrealised gain on trading securities carried at fair value	62	27
	<u>365</u>	<u>(1,549)</u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

5 (LOSS)/PROFIT BEFORE TAXATION

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

	2007 \$'000	2006 \$'000
(a) Finance costs:		
Interest on bank advances and bank borrowings repayable within five years	1,172	1,248
Interest on bank advances and bank borrowings repayable after five years	485	392
Finance charges on obligations under finance leases	92	53
	1,749	1,693
(b) Staff costs:		
Contributions to defined contribution retirement plans	1,319	969
Equity-settled share-based payment expenses	327	–
Salaries, wages and other benefits	21,305	18,488
	22,951	19,457
(c) Other items:		
Amortisation of land lease premium	20	27
Depreciation		
– assets held for use under finance leases	377	433
– other assets	3,251	2,785
Impairment losses on trade and other receivables	531	78
Increase in provision for warranty	24	64
Auditors' remuneration		
– audit services	900	796
– other services	47	44
Net (gain)/loss on forward foreign exchange contracts	(927)	329
Operating lease charges in respect of properties:		
– minimum lease payments	2,678	1,862
Rentals receivable from investment properties less direct outgoings of \$79,000 (2006: \$132,000)	(1,660)	(1,608)
Cost of inventories (note 17(b))	169,132	137,970
	169,132	137,970

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2007 \$'000	2006 \$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	107	82
Under-provision in respect of prior years	–	2
	<hr/>	<hr/>
	107	84
Current tax – PRC		
Provision for the year	271	139
	<hr/>	<hr/>
Deferred tax		
Origination and reversal of temporary differences	(477)	1,278
	<hr/>	<hr/>
	(99)	1,501

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 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.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("New Tax Law") which will take effect on 1 January 2008. From 1 January 2008, the existing preferential tax rate is expected to gradually increase to the standard rate of 25% over a five-year transition period. However, the New Tax Law has not set out the details as to how the existing preferential tax rate will gradually increase to the standard rate of 25%. The enactment of the New Tax Law is not expected to have a significant financial effect on the amount accrued in the balance sheet in respect of current tax payable and the carrying value of deferred tax balance at 31 March 2007.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (CONTINUED)

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

	2007 \$'000	2006 \$'000
(Loss)/profit before taxation	(2,702)	10,082
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to (losses)/ profits in the jurisdictions concerned	(741)	1,829
Tax effect of non-deductible expenses	729	756
Tax effect of non-taxable income	(1,450)	(1,136)
Tax effect of unused tax losses not recognised	1,292	87
Under-provision in prior years	–	2
Others	71	(37)
Actual tax (credit)/expense	(99)	1,501

7 DIRECTORS' REMUNERATION

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

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share- based payments (Note)	2007 Total \$'000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Executive directors</i>							
Fong Kit Wah, Alan	–	2,065	220	12	2,297	73	2,370
Rourke James Grierson	–	832	50	12	894	28	922
Cheung Miu Sin	–	488	65	12	565	28	593
<i>Independent non-executive directors</i>							
Wong Man Chung, Francis	102	–	–	–	102	28	130
Chan Ting Kwong	102	–	–	–	102	28	130
Fung Siu Wan, Stella	102	–	–	–	102	28	130
<i>Non-executive director</i>							
Yin Jie	–	–	–	–	–	28	28
	306	3,385	335	36	4,062	241	4,303

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

7 DIRECTORS' REMUNERATION (CONTINUED)

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

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (Note)	2006 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Executive directors</i>							
Fong Kit Wah, Alan	–	1,780	300	12	2,092	–	2,092
Rourke James Grierson	–	739	100	12	851	–	851
Cheung Miu Sin	–	471	100	12	583	–	583
<i>Independent non-executive directors</i>							
Wong Man Chung, Francis	71	–	–	–	71	–	71
Chan Ting Kwong	71	–	–	–	71	–	71
Fung Siu Wan, Stella	71	–	–	–	71	–	71
<i>Non-executive director</i>							
Yin Jie	–	–	–	–	–	–	–
	213	2,990	500	36	3,739	–	3,739

Note: These represent the estimated value of share options granted to the directors under the company's share option scheme. The value of these share options is measured according to the group's accounting policies for share-based payment transactions as set out in note 1(p)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous year where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 24.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2006: three) are directors whose emoluments is disclosed in note 7. The aggregate of the emoluments in respect of the other two (2006: two) individuals are as follows:

	2007 \$'000	2006 \$'000
Salaries and other emoluments	1,218	1,169
Discretionary bonuses	65	100
Share-based payments	28	–
Retirement scheme contributions	12	12
	1,323	1,281

The emoluments of the two (2006: two) individuals with the highest emoluments are within the following band:

	2007 Number of individuals	2006 Number of individuals
\$Nil-\$1,000,000	2	2

9 (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated (loss)/profit attributable to equity shareholders of the company includes a loss of \$2,408,000 (2006: \$1,020,000) which has been dealt with in the financial statements of the company.

Reconciliation of the above amount to the company's profit/(loss) for the year:

	2007 \$'000	2006 \$'000
Amount of consolidated loss attributable to equity shareholders dealt with in the company's financial statements	(2,408)	(1,020)
Final dividend from subsidiary attributable to the profit of the previous financial year, approved and paid during the year	6,500	–
Company's profit/(loss) for the year (note 27(b))	4,092	(1,020)

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

10 DIVIDENDS

(a) Dividend payable to equity shareholders of the company attributable to the year:

	2007 \$'000	2006 \$'000
Final dividend proposed after the balance sheet date of nil per ordinary share (2006: 1 cent per ordinary share)	Nil	2,800

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

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

	2007 \$'000	2006 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 1 cent per ordinary share (2006: 1 cent per ordinary share)	2,800	2,800

11 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the company of \$2,735,000 (2006: profit of \$8,496,000) and the weighted average number of 280,154,000 ordinary shares (2006: 280,000,000 ordinary shares) in issue during the year.

	2007 Number of shares '000	2006 Number of shares '000
Issued ordinary shares at 1 April	280,000	280,000
Effect of share options exercised (note 27(c)(ii))	154	–
Weighted average number of ordinary shares at 31 March	280,154	280,000

(b) Diluted (loss)/earnings per share

The diluted (loss)/earnings per share for the years ended 31 March 2007 and 2006 is the same as the basic (loss)/earnings per share as all the potential ordinary shares are anti-dilutive.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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, trucks and yachts.

Provision of engineering services and sales of spare parts

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

	Sales and distribution		Provision of engineering services and sales of spare parts		Unallocated		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	164,464	145,528	49,960	44,118	–	–	214,424	189,646
Other revenue from external customers	–	–	–	–	4,380	3,990	4,380	3,990
Total	164,464	145,528	49,960	44,118	4,380	3,990	218,804	193,636
Segment results	2,176	10,681	2,318	3,444			4,494	14,125
Unallocated operating income and expenses							(5,447)	(2,350)
(Loss)/profit from operations							(953)	11,775
Finance costs							(1,749)	(1,693)
Taxation							99	(1,501)
(Loss)/profit after tax							(2,603)	8,581
Depreciation and amortisation for the year	1,937	779	128	221	1,583	2,245		
Write down of inventories	780	–	1,157	600	–	–		
Impairment losses on trade receivables	214	78	317	–	–	–		

Notes to the Financial Statements

(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	
	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment assets	161,672	149,933	21,568	31,951			183,240	181,884
Unallocated assets							41,721	38,586
Total assets							224,961	220,470
Segment liabilities	91,427	87,701	11,703	12,605			103,130	100,306
Unallocated liabilities							15,240	11,767
Total liabilities							118,370	112,073
Capital expenditure incurred during the year	11,545	132	191	761	2,095	2,214		

Geographical segments

The group's business is managed on a worldwide basis, but participates in four 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		Other parts of the PRC		The United States of America		Europe		Others	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	28,609	31,381	159,548	134,335	2,572	6,802	23,689	14,917	6	2,211
Segment assets	166,019	179,811	58,942	38,792	-	-	-	-	-	1,867
Capital expenditure incurred during the year	3,005	1,765	10,826	1,342	-	-	-	-	-	-

Notes to the Financial Statements

(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 2006	18,975	13,143	2,779	112	35,009	21,410	1,025	57,444
Additions	–	2,793	1,094	9,944	13,831	–	–	13,831
Transfer from construction in progress	6,245	2,393	–	(8,638)	–	–	–	–
Disposals	–	(1,543)	(883)	–	(2,426)	–	–	(2,426)
Surplus on revaluation	2,877	–	–	–	2,877	–	–	2,877
Less: elimination of accumulated depreciation	(380)	–	–	–	(380)	–	–	(380)
Fair value adjustment	–	–	–	–	–	1,190	–	1,190
Exchange difference	153	229	23	38	443	–	58	501
At 31 March 2007	27,870	17,015	3,013	1,456	49,354	22,600	1,083	73,037
Representing:								
Cost	–	17,015	3,013	1,456	21,484	–	1,083	22,567
Valuation-2007	27,870	–	–	–	27,870	22,600	–	50,470
	27,870	17,015	3,013	1,456	49,354	22,600	1,083	73,037
Accumulated amortisation and depreciation:								
At 1 April 2006	–	7,023	1,247	–	8,270	–	41	8,311
Charge for the year	380	2,520	728	–	3,628	–	20	3,648
Written back on disposal	–	(732)	(278)	–	(1,010)	–	–	(1,010)
Less: elimination of accumulated depreciation	(380)	–	–	–	(380)	–	–	(380)
Exchange difference	–	63	10	–	73	–	4	77
At 31 March 2007	–	8,874	1,707	–	10,581	–	65	10,646
Net book value:								
At 31 March 2007	27,870	8,141	1,306	1,456	38,773	22,600	1,018	62,391

Notes to the Financial Statements

(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 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	610	–	–	–	610	–	–	610
Less: elimination of accumulated depreciation	(375)	–	–	–	(375)	–	–	(375)
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)
Less: elimination of accumulated depreciation	(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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

13 FIXED ASSETS (CONTINUED)

- (b) The group's leasehold land and buildings and investment properties were revalued as at 31 March 2007 on an open market value basis calculated by reference to market price of recent sale transactions in the relevant markets or a depreciated replacement cost basis calculated by reference to the current cost of replacement of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The valuations were carried out by an independent firm of surveyors, Sallmanns (Far East) Limited, who has among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The revaluation deficit of \$160,000 (2006: surplus of \$284,000) and surplus of \$1,190,000 (2006: \$1,910,000) for the group's leasehold land and buildings and investment properties has been charged to or credited to the consolidated income statement during the year respectively. The revaluation surplus of \$3,037,000 (2006: \$326,000) 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 2007 would have been \$20,129,000 (2006: \$14,210,000) had they been carried at cost less accumulated depreciation.

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

	2007 \$'000	2006 \$'000
In Hong Kong		
– medium-term leases	30,600	28,500
In the PRC		
– long-term leases	8,370	8,485
– medium-term leases	11,500	3,400
	50,470	40,385
Representing:		
Land and buildings	27,870	18,975
Investment properties	22,600	21,410
	50,470	40,385

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

13 FIXED ASSETS (CONTINUED)

(d) Fixed assets held under finance leases

In addition to the leasehold land and buildings classified as being held under a finance lease in note (b) above, the group leases certain fixed assets under finance leases expiring from one to three 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.

During the year, additions to fixed assets of the group financed by new finance leases were \$938,000 (2006: \$640,000). At the balance sheet date, the net book value of fixed assets held under finance leases of the group was \$813,500 (2006: \$700,000).

(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 \$22,600,000 (2006: \$21,410,000).

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:

	2007 \$'000	2006 \$'000
Within 1 year	1,586	1,704
After 1 year but within 5 years	–	1,576
	<hr/> 1,586	<hr/> 3,280

- (f) At 31 March 2007, the group was still in the process of obtaining the relevant legal property certificates of investment properties and leasehold land and buildings in the PRC which amounted to \$3,500,000 (2006: \$3,400,000) and \$8,000,000 (2006: \$Nil) 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

14 FINANCE LEASE RECEIVABLE

	The group					
	2007			2006		
	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

The group leases out a motor vehicle under a finance lease expiring in one year. 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 INTEREST IN SUBSIDIARIES

	The company	
	2007 \$'000	2006 \$'000
Unlisted shares, at cost	59,263	59,263
Amounts due from subsidiaries	32,744	30,938
	92,007	90,201

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

15 INTEREST IN SUBSIDIARIES (CONTINUED)

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

All of these are 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") 啟帆物流設備(珠海)有限公司	PRC	\$8,000,000 (Note (b))	–	100%	Trading of transportation and logistics related equipment
Yardway Enterprise Limited	Hong Kong	\$2,000,000	–	75%	Design and installation of product line and the provision of related after sale service

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

15 INTEREST 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	
Inteq Asia Limited	Hong Kong	\$100	–	67%	Trading of natural gas products and alternative fuel technology for vehicles, equipment and engines
Yardway Advance Power Equipment (Beijing) Co Ltd (“Yardway Beijing”) 啟帆未來動力設備(北京)有限公司	PRC	RMB2,827,698 (Note (c))	–	100%	Trading of spare parts and provision of services
Joy Win Ltd	BVI	US\$100	–	100%	Investment holding
Sinotruck Limited	Hong Kong	\$2	–	100%	Trading of vehicles and spare parts

Notes:

- 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.
- The amount represents 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. At 31 March 2007, the remaining capital contribution of \$2,000,000 is required to be paid within six months.
- The amount represents paid up capital of Yardway Beijing, which is a wholly foreign owned enterprise established in Beijing, the PRC. The registered capital of Yardway Beijing is RMB3,000,000. At 31 March 2007, the remaining capital contribution of RMB172,302 is required to be paid within three months.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

16 INTEREST IN JOINTLY CONTROLLED ENTITIES

Details of the group's interest in the jointly controlled entities are as follows:

Name of joint venture	Form of business structure	Place of incorporation/ establishment and operation	Particulars of issued and fully paid share capital/ capital contribution	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
VLY Holding Co. (HK) Limited ("VLY") (Note (a))	Incorporated	Hong Kong	\$10,000	–	50%	Investment holding
Vosta LMG Yardway (HK) Limited ("Vosta Hong Kong") (Note (b))	Incorporated	Hong Kong	\$10,000	–	50%	Trading and manufacturing of dredging equipment, components and provision for services in Hong Kong
Vosta LMG Yardway (Zhuhai) Ltd ("Vosta Zhuhai")	Incorporated	PRC	\$750,000 (Note (c))	–	50%	Trading and manufacturing of dredging equipment, components and provision for services in PRC

Notes:

- (a) VLY was incorporated in Hong Kong on 7 June 2006 under the Hong Kong Companies Ordinance.
- (b) Vosta Hong Kong was incorporated in Hong Kong on 21 September 2006 under the Hong Kong Companies Ordinance.
- (c) The amount represents paid up capital of Vosta Zhuhai, which is a wholly foreign owned enterprise established in Zhuhai, the PRC on 30 December 2006 under the Law of the PRC applicable to Wholly Foreign Owned Enterprises. The registered capital of Vosta Zhuhai is \$5,000,000. At 31 March 2007, the remaining capital contribution of \$4,250,000 is required to be paid within fifteen months.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

16 INTEREST IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

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 entities:

	2007 \$'000	2006 \$'000
Non-current assets	177	–
Current assets	1,819	3
Current liabilities	(3,235)	(484)
Net liabilities	<u>(1,239)</u>	<u>(481)</u>
Income	1	–
Expenses	(762)	(486)
Loss for the year	<u>(761)</u>	<u>(486)</u>

17 INVENTORIES

(a) Inventories in the balance sheets comprise:

	The group		The company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Work in progress	30	7	–	–
Finished goods	21,592	14,527	–	–
Goods in transit	349	–	–	–
	<u>21,971</u>	<u>14,534</u>	<u>–</u>	<u>–</u>

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

	The group	
	2007 \$'000	2006 \$'000
Carrying amount of inventories sold	167,195	137,370
Write down of inventories	1,937	600
	<u>169,132</u>	<u>137,970</u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

18 TRADE AND OTHER RECEIVABLES

	The group		The company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Trade receivables	37,547	34,285	–	–
Retentions receivable	13,793	6,411	–	–
Prepayments, deposits and other receivables	28,703	18,279	137	181
Amount due from related company	274	256	–	–
Amounts due from jointly controlled entities	2,094	409	–	–
	82,411	59,640	137	181

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

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 \$5,350,000 (2006: \$2,675,000).

The amount due from related company is unsecured, interest free and repayable on demand.

The amounts due from jointly controlled entities are unsecured, interest free and repayable on demand, except for an amount of \$1,000,000 (2006: \$Nil) which is interest bearing at 5% per annum and repayable on 31 December 2007.

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

	The group	
	2007 \$'000	2006 \$'000
Current	25,660	21,965
1 to 3 months overdue	8,563	8,866
More than 3 months overdue but less than 12 months overdue	2,836	1,969
More than 12 months overdue	488	1,485
	37,547	34,285

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

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	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
United States Dollar	USD 5,509	USD 3,798	–	–
Euro	EUR 619	EUR 712	–	–
Renminbi Yuan	RMB 23,411	RMB 11,283	–	–

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	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Renminbi Yuan	RMB 3,944	RMB 3,083	–	–

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

20 CASH AND CASH EQUIVALENTS

	The group		The company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Deposits with banks	27,042	64,548	–	–
Cash at bank and in hand	18,116	20,903	45	39
Cash and cash equivalents in the balance sheet	45,158	85,451	45	39
Bank overdrafts (note 22)	(1,389)	(122)		
Cash and cash equivalents in the consolidated cash flow statement	43,769	85,329		

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

	The group		The company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
United States Dollar	USD 3,793	USD 8,317	USD 1	USD 1
Euro	EUR 714	EUR 912	–	–
Renminbi Yuan	RMB 4,769	RMB 8,751	–	–
Japanese Yen	JPY 14,799	JPY 14,799	–	–

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

21 TRADE AND OTHER PAYABLES

	The group		The company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Trade and bills payables	60,859	58,413	–	–
Sales deposits received	23,252	24,403	–	–
Other payables and accruals	7,595	4,013	436	466
Amounts due to related companies	1,328	328	–	–
	93,034	87,157	436	466

All trade and other payables are expected to be settled within one year.

The amounts due to related companies are unsecured, interest free and have no fixed terms of repayment, except for an amount of \$1,000,000 (2006: \$Nil) which is interest bearing at 5% per annum and repayable on 31 December 2007.

Included in trade and other payables are trade and bills payables with the following ageing analysis as of the balance sheet date.

	The group	
	2007	2006
	\$'000	\$'000
Due within 1 month or on demand	33,689	18,729
Due after 1 month but within 3 months	10,876	12,453
Due after 3 months but within 6 months	5,332	6,601
Due after 6 months but within 1 year	8,280	8,155
	58,177	45,938
Bills payable	2,682	12,475
	60,859	58,413

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

21 TRADE AND OTHER PAYABLES (CONTINUED)

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

	The group		The company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
United States Dollar	USD 6,887	USD 6,612	–	–
Euro	EUR 557	EUR 1,539	–	–
Renminbi Yuan	RMB 26,386	RMB 17,570	–	–
Swiss Franc	CHF 202	CHF 18	–	–

22 BANK LOANS AND OVERDRAFTS

At 31 March 2007, the bank loans and overdrafts were repayable as follows:

	The group		The company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Within 1 year or on demand	17,008	16,294	–	–
After 1 year but within 2 years	836	774	–	–
After 2 years but within 5 years	2,767	2,645	–	–
After 5 years	3,366	4,344	–	–
	6,969	7,763	–	–
	23,977	24,057	–	–

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

22 BANK LOANS AND OVERDRAFTS (CONTINUED)

At 31 March 2007, the bank loans and overdrafts were secured as follows:

	The group		The company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Bank loans				
– secured	19,520	12,584	–	–
– unsecured	3,068	11,351	–	–
	22,588	23,935	–	–
Unsecured bank overdrafts (note 20)	1,389	122	–	–
	23,977	24,057	–	–

At 31 March 2007, certain banking facilities were secured by mortgages over the group's leasehold land and buildings and investment properties with an aggregate carrying value of \$30,600,000 (2006: \$28,500,000) and pledge over bank deposits. Such banking facilities amounted to \$130,300,000 (2006: \$138,300,000). The facilities were utilised to the extent of \$19,520,000 at 31 March 2007 (2006:\$12,584,000).

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

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	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
United States Dollar	USD 1,749	USD 1,546	–	–
Euro	EUR 82	EUR 163	–	–

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

23 OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2007, the group had obligations under finance leases repayable as follows:

	The group		
	2007		
	Present value of the minimum lease payments \$'000	Interest expense relating to future periods \$'000	Total minimum lease payments \$'000
Within 1 year	312	34	346
After 1 year but within 2 years	267	11	278
	579	45	624

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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, including directors of any company in the group, to take up options at nominal consideration 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 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 in four equal instalments with the first instalment vest from the date of grant. The second, third and fourth instalments vest from one, two and three years after the date of grant respectively. The options are exercisable after the vesting date but within a period of five years from the date of grant. 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 years are as follows:**

Options existed during the year 31 March 2007:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 13 November 2006	2,150,000	At the date of grant	5 years
	2,150,000	One year from the date of grant	5 years
	2,150,000	Two years from the date of grant	5 years
	2,150,000	Three years from the date of grant	5 years
	8,600,000		
Options granted to employees:			
– on 13 November 2006	750,000	At the date of grant	5 years
	750,000	One year from the date of grant	5 years
	750,000	Two years from the date of grant	5 years
	750,000	Three years from the date of grant	5 years
	3,000,000		
	11,600,000		

Options existed during the year 31 March 2006:

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

	2007		2006	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at 1 April	–	–	\$0.365	8,000,000
Granted during the year	\$0.21	11,600,000	–	–
Exercised during the year	\$0.21	(850,000)	–	–
Expired during the year	–	–	\$0.365	(8,000,000)
Outstanding at 31 March	\$0.21	10,750,000	–	–
Exercisable at the end of the year	\$0.21	2,050,000	–	–

The weighted average share price at the date of exercise for shares options exercised during the year was \$0.53.

The options outstanding at 31 March 2007 had an exercise price of \$0.21 and a weighted average remaining contractual life of 4.6 year.

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	2007
<i>Fair value of share options and assumptions</i>	
Fair value at measurement date	\$0.06-\$0.09
Share price	\$0.21
Exercise price	\$0.21
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	60%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	5 years
Expected dividends	3.6%
Risk-free interest rate (based on Exchange Fund Notes)	3.75%

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(c) Fair value of share options and assumptions (continued)

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

25 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The group		The company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year	107	82	–	–
Provisional Hong Kong Profits Tax paid	(126)	(116)	–	–
	(19)	(34)	–	–
Balance of tax recoverable relating to prior years	(1,878)	(1,846)	–	–
	(1,897)	(1,880)	–	–
PRC taxation	147	–	–	–
	(1,750)	(1,880)	–	–
Representing:				
Tax recoverable	(1,942)	(1,896)	–	–
Tax payable	192	16	–	–

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

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:

	Depreciation		Revaluation of other properties \$'000	Provision for warranty \$'000	Provision for inventory \$'000	Tax losses \$'000	Other \$'000	Total \$'000
	Revaluation of investment properties \$'000	allowances in excess of related depreciation \$'000						
Deferred tax arising from:								
At 1 April 2005	329	614	199	(14)	(29)	(2,322)	–	(1,223)
Charged/(credited) to profit or loss	371	85	–	8	(38)	852	–	1,278
Charged to reserve (note 27(a))	–	–	32	–	–	–	–	32
At 31 March 2006	700	699	231	(6)	(67)	(1,470)	–	87
At 1 April 2006	700	699	231	(6)	(67)	(1,470)	–	87
Charged/(credited) to profit or loss	228	(172)	–	6	67	(550)	(56)	(477)
Charged to reserve (note 27(a))	–	–	624	–	–	–	–	624
At 31 March 2007	928	527	855	–	–	(2,020)	(56)	234

	The group	
	2007 \$'000	2006 \$'000
Net deferred tax assets recognised on the balance sheet	(237)	–
Net deferred tax liabilities recognised on the balance sheet	471	87
	<u>234</u>	<u>87</u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

25 INCOME TAX IN THE BALANCE SHEET (CONTINUED)

(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 \$22,724,000 (2006: \$15,340,000) 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.

26 PROVISION FOR WARRANTY

	The group \$'000
At 1 April 2006	99
Additional provision made	24
Provisions utilised	(6)
At 31 March 2007	<u>117</u>

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 is only made where a warranty claim is probable.

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(Expressed in Hong Kong dollars unless otherwise indicated)

27 CAPITAL AND RESERVES

(a) The group

	Attributable to equity shareholders of the company										
	Share capital	Share premium	Capital reserve	Contributed surplus	Exchange reserve	Revaluation reserve	land and buildings	Other reserves	Retained earnings	Minority interests	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 April 2005	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 differences on translation of the financial statements of PRC subsidiaries	-	-	-	-	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
At 1 April 2006	28,000	3,728	(4,665)	(180)	111	4,953	231	75,452	107,630	767	108,397
Dividends approved in respect of previous year	-	-	-	-	-	-	-	(2,800)	(2,800)	-	(2,800)
Shares issued under share option scheme	85	145	(51)	-	-	-	-	-	179	-	179
Exchange differences on translation of the financial statements of PRC subsidiaries	-	-	-	-	678	-	-	-	678	-	678
Revaluation surplus, net of deferred tax	-	-	-	-	-	2,413	-	-	2,413	-	2,413
Equity-settled share-based transactions	-	-	327	-	-	-	-	-	327	-	327
Transfer to other reserves	-	-	-	-	-	-	89	(89)	-	-	-
Loss for the year	-	-	-	-	-	-	-	(2,735)	(2,735)	132	(2,603)
At 31 March 2007	28,085	3,873	(4,389)	(180)	789	7,366	320	69,828	105,692	899	106,591

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

27 CAPITAL AND RESERVES (CONTINUED)

(b) The company

	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Contributed surplus \$'000	Retained profits/ (accumulated losses) \$'000	Total \$'000
At 1 April 2005	28,000	3,728	–	59,063	2,984	93,775
Dividends approved in respect of previous year	–	–	–	–	(2,800)	(2,800)
Loss for the year	–	–	–	–	(1,020)	(1,020)
At 31 March 2006	28,000	3,728	–	59,063	(836)	89,955
At 1 April 2006	28,000	3,728	–	59,063	(836)	89,955
Dividends approved in respect of previous year	–	–	–	–	(2,800)	(2,800)
Shares issued under share option scheme	85	145	(51)	–	–	179
Equity-settled share-based transactions	–	–	327	–	–	327
Profit for the year	–	–	–	–	4,092	4,092
At 31 March 2007	28,085	3,873	276	59,063	456	91,753

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

27 CAPITAL AND RESERVES (CONTINUED)

(c) Share capital

(i) Authorised and issued share capital

	2007		2006	
	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
Ordinary shares, issued and fully paid:				
At 1 April	280,000	28,000	280,000	28,000
Shares issued under share option scheme	850	85	–	–
At 31 March	280,850	28,085	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.

(ii) Shares issued under share option scheme

On 22 and 26 January 2007, options were exercised to subscribe for 250,000 and 600,000 ordinary shares in the company respectively at a total consideration of \$179,000 of which \$85,000 was credited to share capital and the balance of \$94,000 was credited to the share premium account. \$51,000 has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(p)(ii).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

27 CAPITAL AND RESERVES (CONTINUED)

(c) Share capital (continued)

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

Exercise period	Exercise price	2007 Number	2006 Number
13 November 2006 to 12 November 2011	\$0.21	2,050,000	—
13 November 2007 to 12 November 2011	\$0.21	2,900,000	—
13 November 2008 to 12 November 2011	\$0.21	2,900,000	—
13 November 2009 to 12 November 2011	\$0.21	2,900,000	—
		10,750,000	—

Each option entitles the holder to subscribe for one ordinary share in the company. Further details of these options are set out in note 24 to the financial statements.

(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

The capital reserve comprises the following:

- the positive goodwill which arose from the acquisition of business on 18 March 2000 and had previously been taken directly to reserve; and
- the fair value of the actual or estimated number of unexercised share options granted to employees of the company recognised in accordance with the accounting policy adopted for share based payments in note 1(p)(ii).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

27 CAPITAL AND RESERVES (CONTINUED)

(d) Nature and purpose of reserves (continued)

(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

Subsidiaries and jointly controlled entities of the group in the PRC, which are wholly foreign-owned enterprises, follow 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, the subsidiaries and jointly controlled entities are required to appropriate 10% of the profit arrived at in accordance with PRC GAAP-WFOE for each year to a statutory reserve. The profits must be used initially to set off against any accumulated losses. The 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 2007, the aggregate amount of reserves available for distribution to equity shareholders of the company was \$63,668,000 (2006: \$61,955,000). The directors did not propose a final dividend after the balance sheet date (2006: a dividend of 1 cent per ordinary share was declared amounting to \$2,800,000).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

28 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the group'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 6% (2006: 4%) and 49% (2006: 15%) of the total trade related 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

28 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk

Effective interest rates and repricing analysis

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.

	2007						2006					
	Effective interest rate	1 year		More than			Effective interest rate	1 year		More than		
		Total	or less	1-2 years	2-5 years	5 years		Total	or less	1-2 years	2-5 years	5 years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Repricing dates for assets/												
(liabilities) which reprice												
before maturity												
Cash at bank and in hand	0.1%-3.8%	18,116	18,116	-	-	-	0.5%-1.8%	20,903	20,903	-	-	-
Pledged bank deposits	0.7%	3,984	3,984	-	-	-	-	-	-	-	-	-
Bank overdrafts	8.0%	(1,389)	(1,389)	-	-	-	8.3%	(122)	(122)	-	-	-
Bank loans	5.3%-8.0%	(22,588)	(22,588)	-	-	-	6.0%-7.9%	(19,004)	(19,004)	-	-	-
		(1,877)	(1,877)	-	-	-		1,777	1,777	-	-	-
Maturity dates for assets/												
(liabilities) which do not												
reprice before maturity												
Deposits with banks	0.1%-5.0%	27,042	27,042	-	-	-	1.6%-3.7%	64,548	64,548	-	-	-
Pledged bank deposits	3.5%	6,325	6,325	-	-	-	1.6%-3.7%	9,032	9,032	-	-	-
Finance lease receivables	-	-	-	-	-	-	5.5%	98	98	-	-	-
Bank loans	-	-	-	-	-	-	6.2%-7.4%	(4,931)	(4,931)	-	-	-
Obligations under finance leases	6.6%-8.4%	(579)	(312)	(267)	-	-	3.5%	(657)	(366)	(255)	(36)	-
		32,788	33,055	(267)	-	-		68,090	68,381	(255)	(36)	-

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

28 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Foreign currency risk

The group is exposed to foreign currency risk primarily through sales and purchases 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 the Euro and United States Dollar.

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

At 31 March 2007, the group had forward exchange contracts hedging forecast transactions with a net fair value of \$150,000 (2006: \$Nil) recognised as derivative financial instruments.

(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 rates and interest rates would have an impact on consolidated earnings.

At 31 March 2007, it is estimated that a general increase of one percentage point in interest rates would increase the group's profit before tax by approximately \$309,000 (2006: \$699,000) so far as the effect on interest-bearing financial instruments is concerned.

(f) Fair values

The fair values of cash and cash equivalents, pledged bank deposits, trade and other receivables, trade and other payables are not materially different from the carrying amounts because of the immediate or short term maturity of these financial instruments. The carrying amounts of other financial assets, bank loans and overdrafts and finance lease liabilities approximate their fair values.

As set out in note 15, amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. It is not practical to estimate the fair value of these amounts due to the related party nature of these instruments.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

28 FINANCIAL INSTRUMENTS (CONTINUED)

(g) Estimation of fair values

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

(i) Trading securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(ii) 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 2007 not provided for in the financial statements were as follows:

	The group		The company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Contracted for	7,214	16,938	–	–

In addition to the above, the group's proportionate share of the jointly controlled entity's capital contribution amounted to \$2,125,000 at 31 March 2007 (2006: \$Nil).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

29 COMMITMENTS (CONTINUED)

- (b) At 31 March 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The group		The company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Within 1 year	1,780	1,753	–	–
After 1 year but within 5 years	837	388	–	–
	2,617	2,141	–	–

The group is a lessee in respect of a number of properties held 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

Financial guarantees issued

At 31 March 2007, the company has undertaken to guarantee certain banking facilities granted to certain subsidiaries to the extent of \$238,000,000 (2006: \$221,000,000).

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the company under any of the guarantees. The maximum liability of the company at the balance sheet date under the guarantees issued is the facilities drawn down by the subsidiaries totalling \$46,372,000 (2006: \$58,872,000).

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

31 MATERIAL RELATED PARTY TRANSACTIONS

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:

(a) Key management personnel remuneration

Remuneration for key management personnel of the group, including amounts paid to the company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2007 \$'000	2006 \$'000
Short-term employee benefits	5,562	4,829
Retirement scheme contributions	65	62
Equity compensation benefits	327	—
	<hr/>	<hr/>
	5,954	4,891

(b) The group entered into the following related party transactions with a joint venture partner:

	2007 \$'000	2006 \$'000
Sales of goods	21,142	—
Service income	1,295	—
Commission income	520	—
Purchase of goods	690	—
	<hr/>	<hr/>

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

31 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Other related party transactions

	Note	2007 \$'000	2006 \$'000
Sales of goods	(i)	–	1,225
Rental paid	(ii)	226	387
Consultancy fee paid	(iii)	–	580
Purchases from related party	(iv)	840	–
Staff costs	(v)	414	459

Notes:

- (i) The amount represents the sale of yacht to Island Gypsy Pty Ltd (“Island Gypsy”). Island Gypsy is an associate of the minority shareholder of a non-wholly owned subsidiary.
- (ii) Fong Kit Wah, Alan, a director of the company, leased properties in the PRC to the group as the office premises of a representative office of the group and to a jointly controlled entity as a staff quarter.
- (iii) The amount represents consultancy fee paid to Inteq Srl, a minority shareholder of a subsidiary. There is no such transaction during the year.
- (iv) The group purchased vehicle spare parts and equipment from Langfang Yardway Machinery and Equipment Ltd. and Yardway Engineering Limited, companies controlled by Fong Kit Wah, Alan, a director of the company.
- (v) The amount represents staff costs paid to an individual minority shareholder of a non-wholly owned subsidiary.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

Notes 13(b), 24 and 28 contain information about the assumptions and their risk factors relating to valuation of leasehold land and buildings and investment properties, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Warranty provision

As explained in note 26, the group makes provision for the warranty it gives on sale of its yachts based on 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

32 ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Key sources of estimation uncertainty (continued)

(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.

(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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2007

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 year ended 31 March 2007 and which have not been adopted in these financial statements.

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.

In addition, the following developments may result in new or amended disclosures in the 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

Summary of Properties

(for the year ended 31 March 2007)

The following is a list of the group's properties at 31 March 2007.

INVESTMENT PROPERTIES IN HONG KONG

Location	Lease term	Purpose	Gross area (sq.ft.)
1. Fanling Sheung Shui Town Lot No. 150 4 Lok Tung Street, Fanling New Territories Hong Kong	Medium	Industrial	14,508

INVESTMENT PROPERTIES IN THE PRC

Location	Lease term	Purpose	Gross area (sq.m.)
(1) Rooms 1227 and 1228 on Level 12 of Block 1, Junefield Plaza Xuanwumenwaidajie East Xuanwu District Beijing The PRC	Medium	Commercial	194.32
(2) Room 6B on level 6 and Car Parking Spacing No. 138 on Basement Level Beijing Regent Court No. Yi 8 Jiangguomenwaidajie Chaoyang District Beijing The PRC	Long	Residential	150.57

LEASEHOLD PROPERTIES IN HONG KONG

Location	Lease term	Purpose	Gross area (sq.ft.)
1. House F25 of Stage IV Marina Cove 380 Hiram's Highway Hebe Haven Sai Kung New Territories Hong Kong	Medium	Residential	2,064

Summary of Properties

(for the year ended 31 March 2007)

LEASEHOLD PROPERTIES IN THE PRC

Location	Lease term	Purpose	Gross area (sq.m.)
(1) Room 5E on level 5 and Car Parking Spacing No. 137 on Basement Level Beijing Regent Court No. Yi 8 Jiangguomenwaidajie Chaoyang District Beijing The PRC	Long	Residential	150.57
(2) Flat A on Level 2 of Block D President Mansion No. 868 Hua Shan Road Shanghai The PRC	Long	Residential	151.27
(3) Room 606 on Level 6, Loyalight Real Building No. 65 Haitian Road Huli District Xiamen City Fujian Province The PRC	Long	Residential	100.09
(4) Two parcels of land (Nos. 1-40 and 1-41) located at Phase 2 of Science and Technology Innovation Coast Zhuhai City Guangdong Province The PRC	Medium	Industrial	10,824.45
(5) A building located at Phase 2 of Science and Technology Innovation Coast Zhuhai City Guangdong Province The PRC	Medium	Industrial	4,348.98

Five Year Financial Summary

(Expressed in Hong Kong dollars)

	2003	2004	2005	2006	2007
	\$'000	\$'000	\$'000	\$'000	\$'000
RESULTS					
Turnover	201,852	228,507	156,383	189,646	214,424
Profit/(loss) from operations	10,818	(4,185)	9,655	11,775	(953)
Finance costs	(1,541)	(1,229)	(880)	(1,693)	(1,749)
Profit/(loss) before taxation	9,277	(5,414)	8,775	10,082	(2,702)
Taxation	(1,207)	1,148	(127)	(1,501)	99
Profit/(loss) for the year	8,070	(4,266)	8,648	8,581	(2,603)
Attributable to:					
– Equity shareholders of the company	8,070	(4,355)	8,556	8,496	(2,735)
– Minority interests	–	89	92	85	132
Profit/(loss) for the year	8,070	(4,266)	8,648	8,581	(2,603)
ASSETS AND LIABILITIES					
Fixed assets	34,875	36,254	49,283	49,133	62,391
Other non-current assets	6,463	3,496	1,410	–	237
Net current assets	64,659	59,751	61,694	67,405	51,670
Non-current liabilities	(10,277)	(9,875)	(9,785)	(8,141)	(7,707)
	95,720	89,626	102,602	108,397	106,591
Share capital	28,000	28,000	28,000	28,000	28,085
Reserves	67,720	61,037	73,920	79,630	77,607
Total equity attributable to equity shareholders of the company	95,720	89,037	101,920	107,630	105,692
Minority interests	–	589	682	767	899
Total equity	95,720	89,626	102,602	108,397	106,591
Earnings/(loss) per share					
Basic	2.9 cents	(1.6) cents	3.1 cents	3.0 cents	(1.0) cent
Diluted	2.9 cents	(1.6) cents	3.1 cents	3.0 cents	(1.0) cent