

The directors have pleasure in submitting their first annual report together with the audited financial statements of Yardway Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2002.

## GROUP REORGANISATION

The Company was incorporated in the Cayman Islands under the Companies Law (Revised) as an exempted company with limited liability on 31 August 2001. Pursuant to a group reorganisation (the “Reorganisation”) to rationalise the structure of the Group in preparation for the public listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the Group on 13 March 2002. The Company’s shares were listed on the Main Board of the Stock Exchange on 28 March 2002.

The Group has been treated as a continuing basis set out in note 2 on the financial statements. Details of the Reorganisation and the basis of presentation of the financial statements are set out in notes 1 and 2 on the financial statements and in the Company’s prospectus dated 19 March 2002.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 on the financial statements.

## SEGMENT INFORMATION

An analysis of the turnover and results by the principal activities and geographical locations of the operations of the Group for the financial year are set out in note 13 on the financial statements.

## FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 March 2002 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 30 to 69.

# Report of the Directors

## DIVIDENDS

An interim dividend of HK\$5,000,000 (2001: HK\$34,000,000) was paid by a subsidiary of the Company to the then shareholder during the year. A special dividend of HK\$10,000,000 was declared by a subsidiary of the Company on 8 March 2002 in recognition of the contribution of the then shareholder. This special dividend was paid partially in March 2002 and the remaining balance was paid in early April 2002 to the then shareholder.

The directors recommend the payment of a final dividend of HK\$0.01 per share in respect of the year ended 31 March 2002 (2001: HK\$Nil) to the shareholders on the register of members of the Company on 20 August 2002.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 on 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	17%	
Five largest customers in aggregate	47%	
The largest supplier		16%
Five largest suppliers in aggregate		52%

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 the Group's five largest customers or suppliers.

## FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 on the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 23 on the financial statements. Shares were issued during the year to broaden the capital base of the Company.

## DIRECTORS

The directors of the Company since its incorporation on 31 August 2001 and up to the date of this report were:

### Executive directors

Fong Kit Wah, Alan	(appointed on 20 September 2001)
Rourke James Grierson	(appointed on 20 September 2001)
Cheung Miu Sin	(appointed on 20 September 2001)
Fong Pok Chung, Michael (formerly known as Fong Pok Chung, Patrick)	(appointed on 19 November 2001)

### Independent non-executive directors

Law Yui Lun	(appointed on 13 March 2002)
Wong Man Chung, Francis	(appointed on 13 March 2002)

The following non-executive director was appointed after the end of the financial year:

Yin Jie	(appointed on 6 May 2002)
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In accordance with articles 111 and 112 of the Company's articles of association, all directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The biographical details of the directors and senior management are set out on pages 18 to 20 of this annual report.

# Report of the Directors

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a fixed term of three years commencing on 1 March 2002. The service contract with executive directors can be terminated by not less than three months' 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

At 31 March 2002, according to the register kept under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the interests of the Company's directors and their associates in the share capital of the Company, its subsidiaries and other associated corporations (as defined in the SDI Ordinance) were as follows:

### (i) Interests in the Company

Name of director	Ordinary shares of HK\$0.1 each				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Fong Kit Wah, Alan	–	–	131,000,000 (Note)	–	131,000,000

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 in turn is interested in 100 non-voting deferred shares of HK\$1 each in Yardway Limited.

Save as disclosed above, as at 31 March 2002, none of the directors or chief executive or their associates had any personal, family, corporate or other interests in the shares of the Company, its subsidiaries or other associated corporations as defined in the SDI Ordinance.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 29 on the financial statements, no contract of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party, 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.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, at no time during the year was the Company or any of its holding company or subsidiaries a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, chief executive, their respective spouses and children under the age of 18 had been granted any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## CONNECTED TRANSACTIONS

Details of material related party transactions for the year are set out in note 29 on the financial statements.

## SHARE OPTION SCHEME

The Company operates a share option scheme which was adopted on 28 March 2002, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The share option scheme, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

As at the date of this report, the total number of shares of the Company which may be issued upon exercise of all options to be granted under the share option scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue.

The subscription price for share under the share option scheme shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of the shares of the Company.

# Report of the Directors

## SHARE OPTION SCHEME (Continued)

During the year under review and up to the date of this report, no share option was granted or agreed to be granted under the share option scheme.

The directors consider it inappropriate to disclose the value of options which may be granted under the share option scheme as if they had been granted as at the date of this report. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The directors of the Company believe that any calculation of the value of options as at the date of this report based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance showed that the Company has been notified the following shareholders had direct or indirect interests of 10% or more in the Company's issued shares:

	<b>Ordinary shares held</b>	<b>Percentage of total issued shares</b>
Speedway	131,000,000	46.79% (Note (1))
Goodwell Group Invest Limited ("Goodwell")	49,000,000	17.50% (Note (2))

Notes:

- (1) These shares are registered in the name of and beneficially owned by Speedway, a company incorporated in the BVI, and whose entire issued share capital is wholly-owned by Fong Kit Wah, Alan.
- (2) 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 wholly-owned by China National Aviation Corporation (Group) Limited ("CNAC"), a company incorporated in Hong Kong. CNAC is in turn wholly-owned by China National Aviation Corporation, a state-owned enterprise established in the People's Republic of China ("PRC").

## 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.

## PURCHASES, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Since the date of listing on 28 March 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2002 are set out in note 18 on the financial statements.

## FINANCIAL 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 70 of the annual report.

## RETIREMENT BENEFIT SCHEMES

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

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

## POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 30 on the financial statements.

# Report of the Directors

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") since the date of the listing of the Company's shares, except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with Company's articles of association.

## AUDIT COMMITTEE

The Company has established an audit committee on 13 March 2002 with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The audit committee comprises two independent non-executive directors. They will be responsible for dealing with audit related matters which include reviewing and supervising the financial reporting process and internal control to protect the interests of the shareholders.

## AUDITORS

KPMG were first appointed as auditors of the Company in 2001.

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, 15 July 2002