

Report of the Directors

The directors have pleasure in submitting their 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 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 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.

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	15%	
Five largest customers in aggregate	43%	
The largest supplier		11%
Five largest suppliers in aggregate		44%

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.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 March 2003 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 26 to 71.

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DIVIDENDS

The directors now recommend the payment of a final dividend of HK1 cent per share (2002: HK1 cent per share) in respect of the year ended 31 March 2003 to the shareholders on the register of members of the Company on 1 September 2003.

FIXED ASSETS

During the year, the Group acquired a leasehold property for approximately HK\$10 million. Details of this acquisition and other movements in the fixed assets of the Group during the year are set out in note 14 on the financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves during the year are set out in notes 27 and 28 on the financial statements, respectively.

DIRECTORS

The directors during the financial year and up to the date of this report were:

Executive directors

Fong Kit Wah, Alan (*Chairman*)

Rourke James Grierson

Cheung Miu Sin

Fong Pok Chung, Michael (resigned on 18 July 2003)

(formerly known as Fong Pok Chung, Patrick)

Non-executive director

Yin Jie (appointed on 6 May 2002)

Independent non-executive directors

Law Yui Lun

Wong Man Chung, Francis

In accordance with article 108 of the Company's articles of association, Messrs Law Yui Lun will retire and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

The biographical details of the directors and senior management are set out on pages 14 to 15 of this annual report.

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DIRECTORS' SERVICE CONTRACTS

Each of the executive directors 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 2003, 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 issued 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	900,000	–	131,000,000 (Note)	–	131,900,000

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 2003, 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.

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DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 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, chief executive and their respective spouses and children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED TRANSACTIONS

Details of material related party transactions for the year are set out in note 32 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. Under this scheme, 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 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.

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SHARE OPTION SCHEME (Continued)

On 9 September 2002, share options were granted under the share option scheme to subscribe for 10,000,000 ordinary shares of the Company for a nominal consideration of HK\$1 in total per grantee. The share options granted entitled the holders to exercise at any time between 16 September 2002 to 15 September 2005 both days inclusive at an exercise price of HK\$0.365 per share option. The closing price of shares immediately before the date of grant of share options was HK\$0.41. The vesting period of the share options is from the date of grant until the commencement of the exercisable period. No share option was exercised to subscribe for shares of the Company during the year.

Details of the share options granted under the share option scheme are as follows:

Name or category of participant	Date of grant of share option	Exercise price HK\$	Exercisable period	Number of share options				
				At 1 April 2002	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2003
Executive directors								
Mr Fong Kit Wah, Alan	9 September 2002	0.365	16 September 2002 to 15 September 2005	–	3,000,000	–	–	3,000,000
Mr Rourke James Grierson	9 September 2002	0.365	16 September 2002 to 15 September 2005	–	1,000,000	–	–	1,000,000
Mr Fong Pok Chung, Michael	9 September 2002	0.365	16 September 2002 to 15 September 2005	–	1,000,000	–	–	1,000,000
Ms Cheung Miu Sin	9 September 2002	0.365	16 September 2002 to 15 September 2005	–	1,000,000	–	–	1,000,000

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SHARE OPTION SCHEME (Continued)

Name or category of participant	Date of grant of share option	Exercise price HK\$	Exercisable period	Number of share options				
				At 1 April 2002	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2003
Non-executive director								
Mr Yin Jie	9 September 2002	0.365	16 September 2002 to 15 September 2005	-	1,000,000	-	-	1,000,000
Independent non-executive directors								
Mr Law Yui Lun	9 September 2002	0.365	16 September 2002 to 15 September 2005	-	1,000,000	-	-	1,000,000
Mr Wong Man Chung, Francis	9 September 2002	0.365	16 September 2002 to 15 September 2005	-	1,000,000	-	-	1,000,000
Senior executive	9 September 2002	0.365	16 September 2002 to 15 September 2005	-	1,000,000	-	-	1,000,000

The financial impact of share options granted is not recorded in the balance sheet until such time as the share options are exercised, and no charge is recorded in the income statement or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise dates are deleted from the register of outstanding share options.

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SHARE OPTION SCHEME (Continued)

The directors consider it inappropriate to disclose the value of share options granted during the year under review because there was no readily market value of the share options on the ordinary shares of the Company and any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions. Therefore the directors believe that the costs for disclosing the value of options do not justify for the benefits provided.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 March 2003, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interests in the Company's issued shares at 31 March 2003 amounting to 10% or more of the ordinary shares in issue:

	Ordinary shares held	Percentage of total issued shares
Speedway	131,000,000	46.79% (Note (1))
Goodwell Group Invest Limited ("Goodwell")	60,112,000	21.47% (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").

On 11 October 2002, an announcement regarding the ownership restructuring involving China National Aviation Corporation was issued. The restructuring involved the establishment of China National Aviation Holding Limited which becomes the immediate shareholder of CNAC.

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.

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

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2003 are set out in note 21 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 72 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.

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

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 33 on the financial statements.

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") throughout the year, 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.

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AUDIT COMMITTEE

The Company 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 are 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 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, 18 July 2003