

The Board of Directors of Yardway Group Limited ("the Company") and its subsidiaries (collectively the "Group") is pleased to present to the shareholders the annual report of the Company for the year ended 31 March 2006.

RESULTS AND OUTLOOK

The Group's turnover amounted to HK\$189,646,000 for the year ended 31 March 2006, representing an increase of approximately 21% as compared to the previous year. The profit attributable to equity shareholders of the Company amounted to HK\$8,496,000 (2005 (restated): HK\$8,556,000). The continued progress in growing our revenue is very encouraging.

As mentioned last year, we had introduced some new products like the precision equipment, sea bed cutting and dredging equipment and a wide range of specialized machineries for welding, manufacturing and testing. Some of the products like welding machines and dredging equipment had driven substantial sales growth which accounted for 14.7% and 7.9% of the total revenue respectively in the year under review.

As a result of the growth momentum in sales of dredging equipment, the Group can offset a large part of the sales decline in warranty services for buses in Hong Kong. In order to meet the

challenges and expansions in the coming years, the construction of a new factory complex in Zhuhai, the PRC, which comprises a gross floor area of approximately 10,824 sq.m., has been commenced in April 2006 and the construction is expected to be completed in the last quarter of 2006. With the effort to consolidate our position in the railway maintenance equipment

and transported related equipment, we will use this as our production processing plant in Zhuhai for assembling railway maintenance equipment like welding machine and dredging equipment.

We understand that the Group will face challenges in the coming year as the global rising interest rates, the appreciation of Renminbi against the United States dollar and the strong Euro currency. However, we still are optimistic about the outlook of the Group. The Group will continue to ensure that the operation is well managed and the overhead are kept under control.

APPRECIATION

Last but not least, I wish to take this opportunity to thank our Board member and Staff for their valuable contributions and our Customers and Suppliers for their continual support.

On behalf of the Board

Fong Kit Wah, Alan

Chairman and Managing Director

Hong Kong, 18 July 2006

