

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 March 2006.

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	9%	
Five largest customers in aggregate	34%	
The largest supplier		13%
Five largest suppliers in aggregate		46%

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 profit of the Group for the year ended 31 March 2006 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 23 to 82.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of HK\$8,581,000 (2005 (restated): HK\$8,648,000) have been transferred to reserves. Other movements in reserves are set out in note 27 to the financial statements.

The directors recommend the payment of a final dividend of HK1 cent per ordinary share (2005: HK1 cent per ordinary share) in respect of the year ended 31 March 2006.

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.

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. Fong Kit Wah, Alan, Mr. Rourke James Grierson and Ms. Cheung Miu Sin retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offers themselves for re-election.

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 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 AND UNDERLYING SHARES

The directors of the Company who held office at 31 March 2006 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 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	47.8%

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.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

(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.

(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.

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, 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.

CONNECTED TRANSACTION

On 3 January 2006, a transaction was entered into between Yardway Marine Limited ("YML"), a subsidiary of the Company and Island Gypsy Pty Ltd ("Island Gypsy"), pursuant to which YML agreed to sell and Island Gypsy agreed to purchase a yacht at a consideration of US\$155,120 (equivalent to HK\$1,209,936). Island Gypsy is an associate of Mr Harvey Halvorsen, who is a substantial shareholder and a director of YML and has an indirect interest of 49% in the issued shares of YML.

The transaction constituted a connected transaction as defined by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and was announced by way of a press announcement by the Company on 3 January 2006.

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 from the date of grant and are then exercisable within a period of 3 years.

There are no securities available for issue under the share option scheme as at 31 March 2006. 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.

At 31 March 2006, the directors and employees of the Company had no interests in options to subscribe for shares of the Company under the share option scheme of the Company.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Name or category of participant	Date granted	Exercise price per share HK\$	Period during which options exercisable	Number of share options		
				At 1 April 2005	Expired during the year	At 31 March 2006
Executive directors						
Fong Kit Wah, Alan	9 September 2002	0.365	16 September 2002 to 15 September 2005	3,000,000	(3,000,000)	–
Rourke, James Grierson	9 September 2002	0.365	16 September 2002 to 15 September 2005	1,000,000	(1,000,000)	–
Cheung Miu Sin	9 September 2002	0.365	16 September 2002 to 15 September 2005	1,000,000	(1,000,000)	–
Non-executive director						
Yin Jie	9 September 2002	0.365	16 September 2002 to 15 September 2005	1,000,000	(1,000,000)	–
Independent non-executive directors						
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)	–
				8,000,000	(8,000,000)	–

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, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

The Company has been notified of the following interests in the Company's issued shares at 31 March 2006 amounting to 5% or more of the ordinary shares in issue:

	Ordinary shares of HK\$0.1 each			Percentage of total issued shares (Note)
	Registered shareholders	Corporate interests	Total number of ordinary shares held	
Goodwell Group Invest Limited ("Goodwell")	64,576,000	–	64,576,000	23.06%
China National Aviation Corporation (Group) Limited ("CNAC")	–	64,576,000	64,576,000	23.06%
China National Aviation Holding Company	–	64,576,000	64,576,000	23.06%
China National Aviation Corporation	–	64,576,000	64,576,000	23.06%

Note: 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.

On 11 October 2002, CNAC issued an announcement regarding the ownership restructuring involving Air China, China Southwest and CNAC. The restructuring involves the establishment of China National Aviation Holding Company which has become the immediate shareholder of CNAC.

CNAC is in turn ultimately wholly-owned by China National Aviation Corporation, a state-owned enterprise established in the People's Republic of China ("PRC").

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.

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 on the financial statements, no contract of significance to which the Company, 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 2006 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 pages 83 and 84 of the annual report.

PROPERTIES

Particulars of the major properties and property interests of the Group are shown on page 85 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 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.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors 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, 18 July 2006