

The Board of Directors (“the Board”) is pleased to present this Corporate Governance Report in the Group’s annual report for the year ended 31 March 2006.

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 (“Code Provisions”) and certain recommended best practices (“Recommended Best Practices”) as set out 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”).

The Company has applied the principles as set out in the CG Code and complied with all the Code Provisions save for the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code and 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 regularly reviews its organisational structure to ensure that operations are conducted in accordance with the standards of the CG Code.

The key corporate governance principles and practices of the Company are summarised as follows:

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 terms of reference respectively.

The Board takes responsibility for 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 that 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 the full support of the Managing Director and the senior management to discharge its responsibilities.

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.

Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Company has met 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.

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

During the year ended 31 March 2006, 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.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

Appointment and Succession Planning of Directors

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.

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. 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, including those appointed for a specific term, are subject to retirement by rotation 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 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

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 pursuant to the Company's Articles of Association.

Induction and Continuing Development for Directors

Each newly appointed directors 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 whenever necessary.

Board Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 March 2006, six regular Board meetings, four Audit Committee meetings, two Remuneration Committee meetings and one Nomination Committee meeting were held.

The individual attendance record of each director at the said meetings of the Board, Audit Committee, Remuneration Committee and Nomination Committee during the year ended 31 March 2006 is set out below:

Name of Directors	Attendance/Number of Meetings			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors:				
Fong Kit Wah, Alan	6/6	–	–	–
Rourke James Grierson	6/6	–	–	–
Cheung Miu Sin	6/6	–	2/2	–
Non-Executive Director:				
Yin Jie	2/6	–	–	–
Independent Non-Executive Directors:				
Wong Man Chung, Francis	6/6	4/4	2/2	1/1
Chan Ting Kwong	6/6	4/4	2/2	1/1
Fung Siu Wan, Stella	6/6	4/4	2/2	1/1

Note: Mr. Fong Kit Wah, Alan has also attended two of the Audit Committee meetings and Ms. Cheung Miu Sin has also attended all the Audit Committee meetings and the Nomination Committee meeting.

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.

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.

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. The Company's Articles of Association also contain 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.

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 division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

The Company does not have the position of Chief Executive Officer but have the position of Managing Director. The positions of the Chairman and Managing Director are held by Mr. Fong Kit Wah, Alan.

There are no written terms on the general division of responsibilities between the Chairman and the Managing Director. The Board considers that the responsibilities of the Chairman and the Managing Director are clear and distinctive and hence written terms thereof are not necessary.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good

corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner.

The Managing Director focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Managing Director is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

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 the roles of Chairman and Managing Director, are necessary.

BOARD COMMITTEES

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

The majority of the members of each Board committees are independent non-executive directors.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Audit Committee

The Audit Committee comprises three 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 auditors.

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 auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held four meetings during the year ended 31 March 2006 to review the financial results and reports, financial reporting and compliance procedures, and risk management review and processes and the re-appointment of the external auditors.

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.

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

The Company's annual results for the year ended 31 March 2006 has been reviewed by the Audit Committee.

Nomination Committee

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 2006 and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

In accordance with the Company's Articles of Association, Mr. Fong Kit Wah, Alan, Mr. Rourke James Grierson and Ms. Cheung Miu Sin 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.

Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets twice a year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. 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/or the Managing Director of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee met twice during the year ended 31 March 2006 and reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management for the year under review.

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 to 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 2006.

The Company also has 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.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Auditors' Report" on page 22.

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company, KPMG, in respect of audit services and non-audit services for the year ended 31 March 2006 amounted to HK\$780,000 and HK\$44,500 respectively. The said non-audit services relate to the preparation and filing of profits tax returns of the Company and its subsidiaries.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained.

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

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit 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.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

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. 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.

To promote effective communication, the Company maintains a website at www.yardway.com.hk, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.