

CORPORATE GOVERNANCE REPORT

The Company has always recognized the importance of upholding transparency and accountability of the management to shareholders and investors. The board of directors of the Company (the "Board") is committed in maintaining high standard of corporate governance with the ultimate goal of maximizing the interests of shareholders and employees as a whole.

CODE ON CORPORATE GOVERNANCE

The Company has adopted and taken steps to comply with the code provisions ("Code Provisions") set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2005, except for the deviation on Code Provision A.4.2 as explained herein in this report.

The Company's corporate governance practices are summarized as below:

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Code for Securities Transactions by Directors of the Company ("Directors Securities Dealings Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules.

All directors have confirmed, following specific enquiry by the Company, that throughout the year of the accounting period covered by the annual report, they complied with the required standard set out in the Model Code and Directors Securities Dealings Code.

BOARD OF DIRECTORS

The Board steers the Company's business direction. The major responsibilities of the Board include the formulating of the long-term corporate strategic, setting business development plans, supervising and monitoring the performance of the management, reviewing the effectiveness of the system of internal control including financial, operational, compliance and risk management functions, responsible for the appointment, removal or reappointment of Board members, senior management and auditors, and determining the remuneration of directors and senior management based on the recommendations of the remuneration committee.

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Regular board meetings of the full Board are held at least 4 times a year at quarterly intervals. Notices of at least 14 days have been given to all directors for all regular board meetings and the directors can include matters for discussion in the agenda if necessary. In addition, special board meetings have been held when necessary. Details of the attendance of the regular board meetings are as follows:

Name of Directors	Regular Board Meetings Attended/Held	Percentage
Executive directors		
Mr Cheung Chung Kiu	4/4	100%
Mr Yuen Wing Shing	4/4	100%
Mr Zhang Qing Xin	3/4	75%
Mr Lam Hiu Lo	2/4	50%
Mr Liang Kang	4/4	100%
Non-executive director		
Mr Lee Ka Sze, Carmelo	2/4	50%
Independent non-executive directors		
Mr Wong Wai Kwong, David	4/4	100%
Mr Wong Yat Fai	4/4	100%
Mr Ng Kwok Fu	4/4	100%

The Board works effectively and all important issues are discussed in a timely manner. All directors have access to the advices and services of the company secretary to ensure necessary board procedures and all applicable rules and regulations are followed. All directors are supplied with board papers and relevant materials not less than three days before the Board meeting. Board minutes have been recorded in sufficient detail and are kept by the company secretary ready for inspection at any reasonable time upon reasonable notice by the directors.

All directors are regularly updated on governance and regulatory matters. The directors, upon reasonable request, have access to independent professional advice in appropriate circumstances at the Company's expenses.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

The role of chairman and CEO are separated. Mr Cheung Chung Kiu, being elected the chairman of the Board since 1993, is accountable for the sketching of business development plans, strategies, objectives and policies for the Company. In addition, the chairman ensures that all directors are properly briefed on issues arising at the board meetings and that the directors receive adequate information in a timely manner. Mr Yuen Wing Shing, being the managing director of the Company, takes the role of the CEO as described in Appendix 14 of the Listing Rules. The primary role of the CEO is to provide leadership for the implementation of the company's objectives, policies and strategies, responsible for the day-to-day management of the Company, setting up budgets, monitoring performance of the management and effectiveness of the Company, and establishing and maintaining proper internal control systems of the Company.

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BOARD COMPOSITION

The Board comprises five executive directors, being Mr Cheung Chung Kiu, Mr Yuen Wing Shing, Mr Zhang Qing Xin, Mr Lam Hiu Lo and Mr Liang Kang. Mr Lee Ka Sze, Carmelo was appointed as a non-executive director of the Company. Further, three independent non-executive directors, being Mr Wong Wai Kwong, David, Mr Wong Yat Fai and Mr Ng Kwok Fu were appointed. They are experienced personnel with academic and professional qualifications in the fields of accounting, legal and business management and at least one of them have appropriate professional qualifications of accounting or related financial management expertise.

To the best knowledge of the Company, save and except that Mr Zhang Qing Xin is the father of Mr Cheung Chung Kiu, the Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced composition of executive and non-executive directors ensures strong independency and thus provides an adequate check and balance for safeguarding the interest of shareholders and the Company as a whole.

By virtue of rule 3.13, the Company has received a written confirmation of independence from each independent non-executive directors. The Board has assessed their independency and concluded that all the independent non-executive directors are independent within the definition of the Listing Rules.

APPOINTMENTS, RE-ELECTION AND REMOVAL

All directors submitted for election or re-election have been accompanied by the relevant biographical details as required for newly appointed directors set out in rule 13.51(2) (including other directorships held in listed public companies in the last three years and other major appointments) to enable shareholders to make an informed decision on their election.

If a director resigns or is removed from office, the Company will comply with the disclosure requirements in accordance with rule 13.51(2) and include in the announcement about the director's resignation or removal, the reasons given by the director for his resignation, including but not limited to information relating to the relevant director's disagreement with the Company, if any, and a statement confirming whether there are any matters that need to be brought to the attention of shareholders.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, according to the bye-laws of the Company ("Bye-laws"), every director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next annual general meeting and shall then be eligible for re-election at that meeting, and at each annual general meeting not exceeding one-third of the directors for the time being shall retire from office by rotation except that the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. This constitutes deviation from Code Provision A.4.2.

To ensure compliance with the CG Code, the Company has reviewed and proposed the amendments to the Bye-laws at the forthcoming annual general meeting to be held on 29 May 2006.

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The Company has not established a nomination committee comprising a majority of independent non-executive directors, the establishment of which is a recommended best practice under CG Code. The Board has undertaken the responsibility of selecting and approval of new directors. According to the Bye-laws, the Board has the power from time to time and at any time to appoint any person as a director either to fill a causal vacancy or as an addition to the Board, subject to authorisation by the shareholders in general meeting. Consideration would be taken, amongst other things, to the nominee's qualification, experience and ability relevant to the Company's business. It is believed that all members of the Board would collectively have the required professional knowledge and skills in identifying, recruiting and evaluating new nominees to the Board.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration committee, comprising a majority of independent non-executive directors, was established on 30 June 2005. Mr Cheung Chung Kiu chairs the committee, other members include Mr Wong Yat Fai and Mr Ng Kwok Fu. One meeting was held in 2005 with the attendance rate of 100%. The remuneration committee is governed by its terms of reference, of which are posted on the Company's website : www.yugang.com.hk.

The principle role of the remuneration committee is to make recommendation to the Board in relation to remuneration policy, formulation and review of the remuneration packages of directors and senior executives of the Company, including basic salaries, discretionary bonuses, retirement benefit and discretionary share option. The emolument is determined by reference to time commitment and responsibilities undertaken by directors and senior executives, ensuring external competitiveness and desirability of performance-based remuneration so as to align management incentives with shareholder interests.

ACCOUNTABILITY AND AUDIT

The Board is also responsible for the integrity of financial information. The directors acknowledge their responsibilities to prepare the financial statements for each financial period in accordance with statutory requirements and applicable accounting standards so as to give a true and fair view of the financial statements of the Company. The directors also ensure the timely publication of the financial statements of the Company. The directors confirm that, to the best of their knowledge, information and belief, having made all reasonable and necessary enquires, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

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AUDIT COMMITTEE

The audit committee comprises all non-executive directors of the Company. Mr David Wong Wai Kwong is the chairman, other members include Mr Carmelo Lee Ka Sze, Mr Wong Yat Fai and Mr Ng Kwok Fu, who among themselves possess diversified industry experience, particularly in accounting, legal, commercial and management sectors. The chairman has appropriate professional qualifications and experiences in accounting matters.

The specific written terms of reference which clearly set out the authorities and duties of the audit committee have been posted on the Company's website: www.yugang.com.hk. Generally, the major roles and functions of the audit committee are as follows:

1. to review the annual report and half-yearly interim report;
2. to review the group's financial and accounting policies and practices, and any significant and judgemental financial reporting issues contained therein;
3. to review the Company's financial controls, internal controls and risk management systems;
4. to make recommendation to the Board with respect to the appointment, re-appointment and removal of the Company's external auditor, their remuneration and terms of engagement; and
5. to report to the Board on the matters set out in the Code Provisions in relation to the audit committee.

During the year of 2005, the audit committee has reviewed with the management and external auditors the accounting principles and policies adopted by the Company and the audited financial statements for the year ended 31 December 2005 and the interim financial statements for the six-month period ended 30 June 2005, and has discussed auditing, financial and internal control, and financial reporting matters of the Company. The audit committee focuses on the impact of the changes in accounting policies and practices and also on the compliance with the accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports as a whole.

The audit committee met regularly since its establishment. In 2005, two meetings with the management and the external auditors were held with the attendance rate of 100%. Full minutes of audit committee meetings were kept by the company secretary. Draft and final versions of minutes of the audit committee meetings were sent to all members of the committee for comments and records within a reasonable time.

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AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditor, Messrs Ernst & Young, is set out as follows:

Services rendered	Fees paid/payable
	<i>(HK\$)</i>
Audit	1,200,000
Non-audit ¹	<u>584,697</u>
Total	<u><u>1,784,697</u></u>

In addition, the remuneration paid to the auditor, Messrs Deloitte Touche Tohmatsu by Qualipak International Holdings Ltd, being a 64.54% owned subsidiary of the Company is set out as follows:

Services rendered	Fees paid/payable
	<i>(HK\$)</i>
Audit	764,000
Non-audit ²	<u>302,000</u>
Total	<u><u>1,066,000</u></u>

Notes:

1. It mainly includes the review of interim financial statements, accounting treatments of new HKFRSs and tax compliance.
2. It mainly includes the service fee on the issuance of accountant's report on the major transaction as required under the Listing Rules, reviewing of interim report and tax compliance.