

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors ("Board") of the company (the "Company") is committed to an ongoing enhancement of effective and efficient corporate governance practices. The Board recognizes that good corporate governance practices are essential in upbringing the success of the Company and balance the interests of shareholders, investors and employees.

Throughout the accounting period covered by the annual report, the Company has complied with the code provisions ("Code Provisions") set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Hereunder particularize the Company's key corporate governance practices:

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Code for Securities Transactions by Directors of the Company ("Directors Securities Dealings Code") on terms exacting as the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules.

Following specific enquiry by the Company, all directors of the Company ("Directors") confirmed 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.

THE BOARD

A. Role and Function of the Board

The Board steers the Company's business direction. The major responsibilities of the Board include formulating 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.

The day-to-day management, administration and operation of the Group are delegated to the executive board committee, comprising all of the executive Directors. Directions as to the powers delegated are clearly identified and periodical reviews will be conducted by the Board to ensure delegated tasks are appropriately performed.

B. Chairman and Chief Executive Officer ("CEO")

Pursuant to Code Provision A.2.1, 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 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 to 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 controls systems of the Company.

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C. 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 Zhang Qing Xin is the father of Mr Cheung Chung Kiu. Mr Lee Ka Sze, Carmelo was appointed as a non-executive Director of the Company. Further, in accordance with Listing Rule 3.10, 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 and business management and at least one of them have appropriate professional qualifications of accounting or related financial management expertise. Such balanced composition of executive and non-executive directors provides an adequate check and balance for safeguarding the interest of shareholders and the Company as a whole.

Pursuant to Listing Rule 3.13, the Company has received a written confirmation of independence from each of the independent non-executive Directors. The Board has assessed their independence based on the contents of such confirmation and concluded that all the independent non-executive Directors are independent within the definition of the Listing Rules.

D. Meeting Records

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 are convened when necessary to deal with everyday matters that require the Board's prompt decision, and are thus usually attended to by the executive Directors only. During the year under review, the Board held 4 regular board meetings and details of the attendance are as follows:

Directors' attendance at board meetings

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

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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.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

In accordance with Code Provision A.4.1, during the last annual general meeting of the Company held on 29 May 2006, all the non-executive Directors were re-elected by the shareholders to hold office for a specific term until the conclusion of the annual general meeting of the Company to be held in 2009, subject to re-election.

Pursuant to Code Provision A.4.2., the bye-laws of the Company ("Bye-laws") was amended on 29 May 2006 to the effect 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.

The Company does not have a nomination committee because the role and function of the committee have been undertaken by the Board. The Board is collectively responsible for nominating and appointing new Directors either to fill casual vacancies or as an addition to the Board, subject to re-election by the shareholders at the next general meeting. All Directors submitted for election or re-election have been accompanied by relevant biographical details as required for newly appointed directors set out in Listing 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 the Board views that there is a need to nominate a candidate to fill a casual vacancy or as an addition to the Board, the Directors will be notified, and they will be entitled to nominate candidates. After receiving such nomination and the relevant resumes of the nominees, the Board will review the nomination and consideration would be given, amongst other things, to the nominee's qualification, experience and ability relevant to the Company's business. A Board meeting will then be held to discuss the nomination and approve the appointment. 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.

During the year under review, there was no Board meeting during which the nomination of director to fill a casual vacancy or as an addition to the Board was discussed, as the Board considers that the present composition of the Board is adequate and competent.

If a director resigns or is removed from office, the Company will comply with the disclosure requirements set out in Listing 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.

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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, and other members include Mr Wong Yat Fai and Mr Ng Kwok Fu. One meeting was held in 2006 during which all the members attended. Remuneration committee is governed by its terms of reference which are posted on the Company's website: www.yugang.com.hk.

The principle role and functions of the remuneration committee are to make recommendation to the Board on relevant matters relating 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 accounts and 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 state of affairs of the Group. 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.

AUDIT COMMITTEE

The audit committee comprises all non-executive Directors of the Company, namely Mr David Wong Wai Kwong acting as the chairman, and 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 judgmental 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.

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During the year of 2006, the audit committee has reviewed with the management and external auditors on the accounting principles and policies adopted by the Company and the audited financial statements for the year ended 31 December 2006 and the six-month period ended 30 June 2006, 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 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 2006, three meetings with the management and two meetings with 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. Details of the members' attendance at the audit committee meetings held in 2006 are as follows:

Members' attendance at audit committee meetings

Name	Audit Committee Attended/Held	Percentage
Mr Wong Wai Kwong, David	3/3	100%
Mr Lee Ka Sze, Carmelo	3/3	100%
Mr Wong Yat Fai	3/3	100%
Mr Ng Kwok Fu	3/3	100%

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the auditors, Messrs Ernst & Young, being the Company's auditor and Messrs Deloitte Touche Tohmatsu, being the auditor of a former subsidiary, C C Land Holdings Limited ("C C Land", previously known as Qualipak International Holdings Ltd) was as follows:

Services rendered	The Company Fees paid/payable (HK\$)	C C Land Fees paid/payable (HK\$)	Total Fees paid/payable (HK\$)
Audit fee (Note 1)	1,000,000	808,200	1,808,200
Non-audit Fee (Note 2)	1,715,500	324,650	2,040,150
Total	<u>2,715,500</u>	<u>1,132,850</u>	<u>3,848,350</u>

Notes:

1. It includes the audit fee of C C Land for the ten months ended 31 October 2006. C C Land has ceased to be a subsidiary of the Group since 6 November 2006.
2. It includes the review of interim financial statements, tax compliance and service fee on the issuance of accountant's report for the Company on a very substantial disposal as required under the Listing Rules.

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INTERNAL CONTROL

The Board undertakes the responsibilities to establish, maintain and operate an effective internal control system of the Company. Areas of responsibilities for each business and operational unit are clearly defined in the Internal Control Manual to ensure effective checks and balances. The Internal Control Manual clearly stipulates the Company's major policies and procedures, management and operational control standards, terms of reference of relevant committees, Code for Securities Transactions by Directors and Code for Securities Dealings by Employees.

The implementation of the internal control system is to identify and manage risks that could adversely hinder the achievement of the Company's business objectives, provide reasonable, albeit not absolute, assurance against failure in operational system, material error, loss or fraud to the Company.

To comply with Code Provision C.2.1., an annual review on the effectiveness of the internal control system of the Company and its subsidiaries has been conducted by the Board and reviewed by the audit committee in November 2006, covering all material controls, including financial, operational and compliance control and risk management functions. The review has been conducted by reference to the guidance of "Internal Control and Risk Management — A Basic Framework" published by Hong Kong Institute of Certified Public Accountants, and considering the standard of the COSO Framework (The Committee of Sponsoring Organizations of the Treadway Commission). The Board is of the view that the internal control system in place for the year under review is sound and is sufficient to safeguard the interests of shareholders, investors and employees. There were no suspected frauds, material error, misstatement and irregularities, nor infringement of applicable laws, rules and regulations that had come to the Board's attention.