

Corporate Governance Report

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year.

A. THE BOARD

Responsibilities

The Board is responsible for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the Company’s affairs. Directors should take decisions objectively in the interests of the Company.

While Day-to-Day management, administration and operation of the Company are delegated to the Executive Directors, Chief Executive Officer and senior management, the Independent Non-Executive Directors are responsible for:

- (a) participating in board meetings of the Company to bring an independent judgement to bear on issue of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;
- (b) taking the lead where potential conflicts of interest arise;
- (c) serving on the audit, remuneration and other governance committees, if invited; and
- (d) scrutinizing the Company’s performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

The Board provides leadership, approves major policies, reviews and monitors the business performance of the Group, approving major funding and investment proposals, as well as approves the financial statements of the Group. Day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and senior management.

Chairman and Chief Executive Officer

The roles of Chairman and the Board and Chief Executive Officer of the Company are segregated. The Chairman of the Board is Mr. Tse Kam Pang, an Executive Director, who is responsible for leadership and effective running of the Board. The Chief Executive Officer of the Company is Mr. Ma Gary Ming Fai, an Executive Director, who is responsible for Day-to-Day management, administration and operation of the Company.

Board Composition

During 2006, the Board of the Company comprised six Directors as below.

Executive Directors:

Mr. Tse Kam Pang (Chairman)
 Mr. Lam Toi
 Mr. Ma Gary Ming Fai (Chief Executive Officer)

Independent non-executive Directors:

Dr. Donald H. Straszheim
 Mr. Chang Chu Fai J. Francis
 Mr. Yau Chung Hong

The biographical details of Directors and other senior management are disclosed in the appropriate section in the Annual Report.

Board meeting and procedure

Regular Board meetings are held at least four times a year. It is also held as and when necessary to discuss significant transactions, including issuance of securities, material acquisitions, and connected transactions, if any. Other than regular Board meetings, Directors also meet periodically to discuss matters of particular interest. Details of the Directors' attendance record in the year are as follows:

Directors Attendance

Name	Number of Board meetings held during the Director's term of office in 2006	Number of meetings attended
Mr. Tse Kam Pang (<i>Chairman</i>)	4	4
Mr. Lam Toi	4	0
Mr. Ma Gary Ming Fai (<i>Chief Executive Officer</i>)	4	4
Dr. Donald H. Straszheim	4	4
Mr. Chang Chu Fai J. Francis	4	4
Mr. Yau Chung Hong	4	4

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Board members are provided with complete, adequate and timely information to allow them to fulfill their duties properly. In compliance with Code provision A1.3 of the CG Code, at least 14 days notice have been given for a regular Board meeting to give all directors an opportunity to attend. Notice, agenda and board papers of regular Board meeting are sent to all Directors within reasonable time prior to the meetings. None of the members of the Board has any relationship (including financial, business, family or other material or relevant relationships) between each other. to confirm with Jackson Directors are free to contribute alternative views at meetings and major decisions would only be taken after deliberation at Board meetings. Directors who are considered having conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution. Full minutes are prepared after the meetings and will be endorsed in the subsequent Board meeting.

All non-executive Directors (including independent non-executive Directors) of the Company have been appointed for a term of three years after the Annual General Meeting taken place on 26 May 2006. They are eligible for re-appointment and subject to re-election on retirement by rotation in accordance with the articles of association of the Company. The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and it still considers the independent non-executive Directors to be independent.

Model Code For Securities Transaction By Directors

The Company has adopted for compliance by the directors and relevant employees the code of conduct for dealings in securities of the Company as set out in Appendix 10 - Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), of the Listing Rules. The Company, having made specific enquiry, confirms that members of the Board complied throughout the year with the Model Code set out in Appendix 10 to the Listing Rules. Senior managers who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

B. BOARD COMMITTEES

As an integral part of good corporate governance, the Board has established the following Board Committees to oversee particular aspects of the Company's affairs. All committees are provided with sufficient resources to discharge their duties.

Audit Committee

The Audit Committee consists of three independent non-executive Directors namely Mr. Yau Chung Hong, who is the chairman of the Audit Committee, Dr. Donald H. Strasheim and Mr Chang Chu Fai J. Francis. The Audit Committee meets regularly, normally two times a year, with the senior financial management and meets with external auditor once a year for final result reviews.

The main duties of the Audit Committee include the following:

1. To monitor the integrity of the annual and interim reports as well as to review significant financial reporting judgments before submission to the Board and to report to the Board.
2. To review the relationship with the External auditor.
3. To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

There were two meetings of the Audit Committee held during 2006. Details of the members' attendance record in the year are as follows:

Directors Attendance

Name	Number of Audit Committee meetings in 2006	Number of meetings attended
Dr. Donald H. Straszheim	2	2
Mr Chang Chu Fai J. Francis	2	2
Mr. Yau Chung Hong	2	2

During 2006, the Committee reviewed the financial results of the Group for the year ended 31 December 2005 and the interim results for the six months ended 30 June 2006 before they were submitted to the Board for approval. The Committee met with the external auditors to discuss the results of their audit for the year ended 31 December 2006. The Committee approved the auditor's remuneration and carried out assessment of their independence. During 2006, there was no disagreement between the Board and Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

Remuneration Committee

The Company has set up a Remuneration Committee in accordance with the relevant requirements of the Code on 27 August 2005. The Committee is chaired by Mr. Chang Chu Fai J. Francis, and comprising two other members, namely Dr. Donald H. Straszheim and Mr. Yau Chung Hong. All the members of the Committee are independent non-executive Directors of the Company. The principal responsibilities of the Remuneration Committee include formulating a remuneration policy that guides the employment of senior personnel, recommending to the Board the remuneration of members of the Board who are independent non-executive Directors, determining the remuneration packages of the members of the Board who are executive Directors and reviewing and approving performance-based remuneration by reference to the Company's goals, objectives and market practices and ensure no director involved in deciding his own remuneration. No meeting of the Remuneration Committee was held in 2006 as no matter is required to be tabled for discussion..

Details of the remuneration of each Director for 2006 is set out in the Note 8 to the Company's annual report.

Nomination Committee

The Company does not have a nomination committee, and the power to nominate or appoint additional Directors is vested on the Board according to the Articles of Association, in addition to the power of the shareholders to nominate any person to become a Director of the Company in accordance with the Articles of Association of the Company and the laws of Hong Kong.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically will follow the provisions of the Articles of Association which empowers the Board from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. The Directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deem fit. The Directors shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position. There were no changes in directorship during 2006.

All newly appointed Director will be provided an induction so as to ensure that he/she has appropriate understanding of the business and operations of the Group and of the responsibilities and obligations under the Listing Rules and other relevant regulatory requirements.

C. ACCOUNTABILITY AND AUDIT

Directors' Responsibility for the Accounts

The Directors acknowledge their responsibility for the preparation of the accounts of the Group and ensure that the accounts are in accordance with statutory requirements and applicable accounting standards. The accounts are prepared on a going concern basis, the members of the Board have selected appropriate accounting policies and apart from those new and amended accounting policies disclosed in the notes to the accounts ended 31 December 2006, have applied them consistently with previous financial periods. The statement of our Auditors about their responsibility on the accounts is included in the Independent Auditors' Report. In support of the above, the accounts presented to the Board have been reviewed by the Executive Directors. For the annual reports and accounts, the Company's financial department is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new accounting standards and requirements adopted by the Group have been discussed and approved at the Audit Committee.

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.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on page 28 and 29 of this annual report.

External Auditors' Remuneration

The Company engages Ernst & Young as its External Auditor. An analysis of remuneration in respect of audit is included in the Notes to the Accounts in the Annual Report. No non-audit services provided by the external auditors.

Internal Controls

The internal audit department, which is independent to the Company's daily operations and accounting functions, is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls.

The internal control framework also provides for identification and management of risk.

The internal audit department also formulates the internal audit plan and procedures, conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the management on any key findings and progress of the internal audit process.

The Board, through the internal audit department, has conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2006 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such system are effective and adequate.

D. COMMUNICATION WITH SHAREHOLDERS

The Company's Annual General Meeting ("AGM") is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to question Directors about the Company's performance. The Chairman of the Board and the Audit Committee were present at the 2006 AGM. 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 are included in all circulars to shareholders and will be explained at each general meeting. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting. Results on any voting conducted by poll will be published in an announcement to be issued on the business day following the general meeting. Registered shareholders are notified by post of the AGM. Any registered shareholder is entitled to attend and vote at the AGM, provided that his/ her/ its shares have been fully paid up and recorded in the register of the members of the Company. Shareholders or investors can make enquiries or proposals to the Company by putting their enquiries or proposals to the Company through the contact details listed under the section headed "Investor Relations".

E. INVESTOR RELATIONS

The Company regards the communication with institutional investors as an important means to enhance the transparency of the Company and to collect views and feedback from institutional investors. In the year under review, the Directors and senior management of the Company participated in numerous of road shows covering America, UK and Asia (China and Singapore). The Company also communicates with investors through press conferences, news release, and answering enquiries from media. Shareholders, investors and interest parties can make enquiries to the Company through the following means:

By e-mail: info@chitaly.com.hk

Telephone number: (852) 2636-6648

By post: Room 204, 2/F Wing On Plaza

62 Mody Road

Tsim Sha Tsui, Kowloon

Hong Kong

Attention: Public Relationship