

Corporate Governance Report

Chia Tai Enterprises International Limited (the “Company”) is committed to achieving high standards of corporate governance that properly protect and promote the interests of all the shareholders and to enhance corporate value and accountability. The Company has applied the principles and complied with the code provisions prescribed in Appendix 14 – Code on Corporate Governance Practices (“CG Code”) as required under the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). This report describes our corporate governance practices and explains the applications of the principles of the CG Code.

A. BOARD OF DIRECTORS

BOARD

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company’s affairs. The Board focuses on overall corporate strategies and policies with attention particularly paid to the growth and financial performance of the Group.

The Board has determined that certain matters such as strategic planning, significant transactions and budget should be retained for the Board’s approval. It has formalised the functions reserved to the Board to achieve a clear division of the responsibilities of the Board and the management. The Board delegated its responsibilities to the senior management to deal with day-to-day operations and review those arrangements on a periodic basis. Management has reported back to the Board and obtain prior approval before making decisions for key matters or entering into any commitments on behalf of the Company.

To maximise the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established executive board committee, audit committee and remuneration committee with specific written terms of reference to assist in the execution of their duties. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time, as well as the committees’ structure, duties and memberships.

The Company Secretary and the Qualified Accountant shall, as far as possible, attend all meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. All directors have access to the Company Secretary who is responsible for the Group’s compliance with the continuing obligations of the Listing Rules, Code on Takeover and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations etc.

All directors are given the opportunities to include matters to be discussed in the agenda of the Board/committee meetings. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda.

Other than exceptional circumstances, an agenda accompanied by any related materials are circulated to all directors in a timely manner and at least three days before the date of scheduled meeting. Where queries are raised by directors, responses should be given as promptly and fully as possible within a reasonable time.

The Board meets regularly and at least four board meetings are scheduled annually at approximately quarterly intervals. Ad-hoc meetings are convened when it considers necessary. Notices of regular Board/committee meetings are given at least 14 days before the date of meeting. For all other Board/committee meetings, reasonable notices are given.



Corporate Governance Report

A. BOARD OF DIRECTORS (Continued)

BOARD (Continued)

Minutes of the Board/committee meetings are recorded in details for the matters considered by the participants of such meetings and decisions reached, including concerns raised by directors or dissenting views expressed. Draft and final versions of minutes are circulated to relevant directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary or secretary of the committees and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities on timely basis. The directors, to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a Board/committee meeting and the interested shareholder or director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. Independent non-executive director who has no material interest in the transaction, should be present at such a board meeting.

BOARD COMPOSITION

The Board currently consists of fourteen Executive Directors (including a Chairman, two Vice Chairmen, a Chief Executive Officer ("CEO") & President) and three Independent Non-Executive Directors ("INEDs").

Executive Directors:

Mr. Soopakij Chearavanont (Chairman)
Mr. Narong Chearavanont (Vice Chairman)
Mr. Tse Ping (Vice Chairman)
Mr. James Harold Haworth (CEO & President)
Mr. Michael Ross
Mr. Yang Xiaoping
Mr. Li Wen Hai
Mr. Umroong Sanphasitvong
Mr. Robert Ping-Hsien Ho
Mr. Meth Jiaravanont
Mr. Nopadol Chiaravanont
Mr. Chatchaval Jiaravanon
Mr. Supachai Chearavanont
Mr. Kachorn Chiaravanont

Independent Non-Executive Directors:

Mr. Viroj Sangsnit
Mr. Chokchai Kotikula
Mr. Cheng Yuk Wo

The attributes, skills and expertise among the existing directors have a balance and mix of core competencies in areas such as accounting and finance, legal, business and management and marketing strategies.

Corporate Governance Report

A. BOARD OF DIRECTORS (Continued)

BOARD COMPOSITION (Continued)

The INEDs meet the requirements of independence under the Listing Rules so that there is sufficient element of independence in the Board to exercise independent judgements. The Board considers that all of the INEDs are independent and has received from each of them the confirmation of independence as required by the Listing Rules.

The INEDs have the same duties of care and skill and fiduciary duties as the executive directors. They are expressly identified as such in all corporate communications that disclose the names of directors of the Company. The functions of INEDs include, but not limited to:

- participating in Board meetings to bring an independent judgement to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- taking the lead where potential conflicts of interests arise;
- serving and active participating on committees, if invited;
- attending general meetings of the Company and developing a balanced understanding of the views of shareholders; and
- scrutinising the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of performance.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and CEO of the Company are separated and the positions are held by separate individuals with a view to maintain an effective segregation of duties between management of the Board and day-to-day management of the Group's business. There is no financial, business, family or other material/relevant relationship between the Chairman and CEO.

Mr. Soopakij Chearavanont is the Chairman of the Company. He is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company and providing leadership to the Board so that the Board works efficiently and discharge its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner.

Mr. James Harold Haworth is the CEO & President of the Company and is responsible for managing the Group's business and operations.

The Chairman also seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

APPOINTMENT, RE-ELECTION AND REMOVAL

Appointment of new directors is a matter for consideration by the Board. It reviews the profiles of the candidates and makes recommendations on the appointment, re-election and retirement of directors. The Board meeting held on 15th September, 2006 discussed the resignation and appointment of directors. During the year, one director resigned and four directors were appointed by the Board.



Corporate Governance Report

A. BOARD OF DIRECTORS (Continued)

APPOINTMENT, RE-ELECTION AND REMOVAL (Continued)

The Articles of Association of the Company provides that (1) any directors appointed by the Board to fill a casual vacancy shall be subject to re-election by shareholders at the next following general meeting after their appointment or until the next following annual general meeting ("AGM") after their appointment in case of an addition to their number; and (2) one-third of the directors or, if their number is not three or a multiple of three, the number nearest to but not less than one-third who have been longest in office since their last election or re-election are subject to retirement by rotation at least once every three years. The new directors shall not be taken into account in determining the number of directors who are to retire by rotation at such meeting. All retiring directors are eligible for re-election.

Ordinary resolutions were duly passed at the extraordinary general meeting of the Company on 25th October, 2006, for the re-election of the newly appointed directors, namely Messrs. James Harold Haworth, Michael Ross, Li Wen Hai and Nopadol Chiaravanont.

Newly appointed director(s) of the Company will receive induction and reference materials to enable him/them to familiarise with the Group's history, mission, business operations and the Company's policies. Each director is briefed and updated to ensure that he has a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities of the latest changes under statute and common law, the Listing Rules, Companies Ordinance, Securities and Futures Ordinance, applicable legal and other regulatory requirements and the governance policies of the Company. Every new director received a "Memorandum on the Duties and Responsibilities of Directors of a Company Listed on the Main Board of The Stock Exchange of Hong Kong Limited" prepared by the Group's external lawyers which set out guidelines on statutory and regulatory requirements.

Every director shall ensure that he can contribute sufficient time and effort to the corporate affairs of the Company once he accepts the appointment.

The Executive Directors are not appointed for a specific term. The INEDs are appointed for successive term of one year each. All the Directors are subject to retirement by rotation and re-election by shareholders at general meeting of the Company, in accordance with the Articles of Association of the Company.

The names and biographical details of the directors who will offer themselves for election or re-election at the general meeting are set out in the relating circular accompanying the notice of meeting, to assist shareholders in making an informed decision on their elections.

COMMITTEES

Executive Board Committee ("EBC")

The EBC was established on 8th September, 2005 with written terms of reference. The EBC consists of Messrs. Soopakij Chearavanont (Chairman), Narong Chearavanont, Yang Xiaoping, Umroong Sanphasitvong and Robert Ping-Hsien Ho.

The EBC meets as and when required to oversee the day-to-day management of the Group.

All resolutions or recommendations approved by the EBC will be reported to the Board, unless there are legal or regulatory restriction.

Corporate Governance Report

A. BOARD OF DIRECTORS (Continued)

COMMITTEES (Continued)

Remuneration Committee ("RC")

The RC was established on 8th September, 2005 with written terms of reference. The RC consists of Messrs. Soopakij Chearavanont (Chairman), Umroong Sanphasitvong, Viroj Sangsnit (INED), Chokchai Kotikula (INED) and Cheng Yuk Wo (INED). Mr. Robert Ping-Hsien Ho resigned and Mr. Umroong Sanphasitvong was appointed as RC member with effect from 8th December, 2006.

The principal functions of the RC include:

- recommending the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;
- determining the remuneration packages of all executive directors and senior management;
- reviewing and approving their performance-based remuneration;
- reviewing and approving compensation to directors and senior management in connection with any loss or termination of their office or appointment; and
- ensuring no director or any of his associates is involved in deciding his own remuneration.

The RC held a meeting in early December, 2006 to discuss and review the remuneration policy and package for directors. The emoluments of directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time-commitment in the Group's affairs and performance of each director as well as salaries paid by comparable companies and the prevailing market conditions. The Company has adopted a share option scheme on 31st May, 2002, which serves as an incentive to attract, retain and motivate talented eligible staff, including the directors. Members of the RC, however, do not participate in the determination of their own remuneration. Details of the directors' emoluments is set out in Note 10 to the financial statements.

The RC consults the Chairman and the CEO about its proposals relating to the remuneration of other executive directors and has access to professional advice if it considers necessary. The Company provides sufficient resources to RC to discharge its duties.

Minutes of RC are kept by the Company Secretary. Draft and final versions of minutes have been sent to all members of the RC within a reasonable time after the meeting for their comments and records respectively.

The terms of reference of the RC is available from the Company Secretary on request and is posted on the Company's website.

Audit Committee ("AC")

The AC was established on 2nd July, 1999. The AC consists of three INEDs, Messrs. Cheng Yuk Wo (Chairman), Viroj Sangsnit and Chokchai Kotikula, who together have sufficient accounting and financial management expertise, legal and business experience to discharge their duties. In accordance with the provisions of the CG Code, the terms of reference of the AC were revised on 19th July, 2005 in terms substantially the same as the provisions set out in the CG Code.



Corporate Governance Report

A. BOARD OF DIRECTORS (Continued)

COMMITTEES (Continued)

Audit Committee ("AC") (Continued)

The Company provides sufficient resources to the AC for discharging the duties. The duties and responsibilities are set out clearly in the terms of reference which includes:

- considering and recommending the appointment, re-appointment and removal of external auditors;
- approving the remuneration and terms of engagement of external auditors, any questions of resignation or dismissal of the auditors;
- discussing with external auditors' independency, the nature and scope of the audit and reporting obligations before the audit commences;
- monitoring integrity of financial statements and reviewing the interim and annual financial statements and reports before submission to the Board;
- reviewing the Group's financial controls, internal control and risk management systems;
- considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response; and
- reviewing the external auditors' management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised.

The AC met two times during 2006 and performed the following work:

- Reviewed and discussed with management and the external auditors regarding the financial statements for the year ended 31st December, 2005 and management letter;
- Reviewed with management the unaudited interim financial statements for the six months ended 30th June, 2006;
- Reviewed the operations and performance of the Group;
- Reviewed the effectiveness of internal control system;
- Reviewed the external auditors' statutory audit plan and engagement letter;
- Recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors; and
- Recommended to the Board for the subsequent change of auditors.

Minutes of AC are kept by the Company Secretary. Draft and final versions of minutes have been sent to all members of the AC within a reasonable time after the meeting for their comments and records respectively.

The terms of reference of the AC is available from the Company Secretary on request and is posted on the Company's website.

Corporate Governance Report

A. BOARD OF DIRECTORS (Continued)

BOARD AND COMMITTEE ATTENDANCE

The Board held four regular meetings in 2006. Details of the attendance of individual director at Board meetings and committee meetings during 2006 are set out below:

Directors	No. of meetings attended/held		
	Board	Remuneration Committee	Audit Committee
Executive Directors			
Mr. Soopakij Chearavanont	4/4	1/1	–
Mr. Narong Chearavanont	3/4	–	–
Mr. Tse Ping	0/4	–	–
Mr. James Harold Haworth (appointed on 15th September, 2006)	2/2	–	–
Mr. Michael Ross (appointed on 15th September, 2006)	2/2	–	–
Mr. Yang Xiaoping	4/4	–	–
Mr. Li Wen Hai (appointed on 15th September, 2006)	2/2	–	–
Mr. Umroong Sanphasitvong	4/4	–	–
Mr. Robert Ping-Hsien Ho	3/4	1/1	–
Mr. Meth Jiaravanont	4/4	–	–
Mr. Nopadol Chiaravanont (appointed on 15th September, 2006)	2/2	–	–
Mr. Chatchaval Jiaravanon	1/4	–	–
Mr. Supachai Chearavanont	2/4	–	–
Mr. Kachorn Chiaravanont	2/4	–	–
Mr. Lee G. Lam (resigned on 15th September, 2006)	2/3	–	–
Independent Non-Executive Directors			
Mr. Viroj Sangsrit	3/4	1/1	2/2
Mr. Chokchai Kotikula	3/4	1/1	2/2
Mr. Cheng Yuk Wo	4/4	1/1	2/2
No. of meetings	4	1	2

Messrs. Soopakij Chearavanont, Narong Chearavanont and Supachai Chearavanont are brothers. They are cousins of Messrs. Tse Ping, Meth Jiaravanont, Nopadol Chiaravanont, Chatchaval Jiaravanon and Kachorn Chiaravanont. Messrs. Nopadol Chiaravanont and Kachorn Chiaravanont are brothers. They are also cousins of Messrs. Tse Ping, Meth Jiaravanont and Chatchaval Jiaravanon. Messrs. Tse Ping, Meth Jiaravanont and Chatchaval Jiaravanon are cousins. Mr. Michael Ross is the brother-in-law of Messrs. Soopakij Chearavanont, Narong Chearavanont and Supachai Chearavanont and cousin-in-law of Messrs. Tse Ping, Meth Jiaravanont, Nopadol Chiaravanont, Chatchaval Jiaravanon and Kachorn Chiaravanont. Save as disclosed above, there are no family relationships among members of the Board.

SECURITIES TRANSACTIONS BY OFFICERS

The Company has adopted a code of securities dealing for directors/senior management/employees (the "Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, as its own code of conduct regarding securities transactions. Having made specific enquiry of all directors, they have confirmed that they have fully complied with the required standards as set out in the Model Code.

Officers/employees as defined in the Code deemed to be in possession of unpublished price-sensitive or confidential information in relation to the Company or its shares are required to prohibit from dealing in securities of the Company during the black-out period for compliance with the Code.



Corporate Governance Report

B. ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the financial statements which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. The directors have also ensured the timely publication of the financial statements of the Group.

As at 31st December, 2006, the Group had net current liabilities and net liabilities of approximately HK\$745 million and HK\$69 million respectively and incurred a loss from continuing operation of HK\$571 million for the year then ended. In view of these circumstances, the directors have given careful consideration to the future liquidity and performance of the Group in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

As disclosed in the financial statements, the Group had disposed of its non-core businesses in order for management to concentrate their effort on the retail operation of "cash-and-carry" stores. The directors have recruited a team of senior management with extensive experience in retail business and financial management who are in the process of conducting a detailed review of the performance of the stores with a view to rationalising and strengthening the "cash-and-carry" retail business. Appropriate measures will be put in place following such review. In the coming year, management will also implement further cost control measures to reduce the operating costs. The directors consider that the measures taken to date and the further measures to be implemented will improve the performance of the retail business going forward.

During the year, the Group has obtained a long term loan facility of HK\$390 million to replace the short term loans in order to improve the liquidity position. As a further measure, the directors are considering other bank and non-bank sources of financing in light of the future funding requirements of the Group.

On this basis, the directors consider the Group will have sufficient financial resources for its working capital and capital expenditure requirements and that it will be able to meet its financial obligations as and when they fall due. Accordingly, the financial statements have been prepared on a going concern basis.

The Board endeavours to ensure a balanced, clear and understandable assessment of the Group's position and prospects to extend the Group's financial reporting including annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements and application accounting standards.

INTERNAL CONTROLS

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets.

The directors conducted annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance and risk management functions.

The Group maintain a centralised cash management system for the Group's treasury function to oversee the Group's investment, lending and borrowing activities.

Corporate Governance Report

B. ACCOUNTABILITY AND AUDIT (Continued)

INTERNAL CONTROLS (Continued)

The Group has established guidelines and procedures for the approval and control of expenditures. Operating expenditures are subject to the overall budget control and are controlled by each business with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Group's external auditors, Messrs. KPMG is set out as follows:

	Fee Paid / Payable 2006 (HK\$'000)
Audit Services	2,415
Other Assurance Services	200

C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, press announcements and circulars made through the Company's and Stock Exchange's websites.

The annual general meeting or other general meetings provide a useful forum for shareholders to exchange views with the Board. The Chairman of the Board as well as the Chairmen of AC and/or RC, or in their absence, members of the committees or senior management of the Company should be available to answer the shareholders' questions. The Chairman of the independent board committee should also attend the general meetings for approving connected transactions or any transactions that is subject to independent shareholders' approval.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors.

Details of the poll voting procedures and rights of shareholders to demand a poll are included in circular convening a general meeting despatching to the shareholders of the Company. The Chairman of the meeting should ensure compliance with the voting by poll requirement.

The Chairman of the meeting should at the commencement of the meeting ensure that an explanation is provided of (1) the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and (2) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.

The Company should count all proxy votes, and except where a poll is required, the Chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company should ensure that votes cast are properly counted and records.

The Company regularly releases latest corporate news of the Group's developments on its website at <http://www.ctei.com.hk>.

