

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 ended 31 December 2005, except for certain deviations from the Code Provisions in respect of Code Provisions A.1.1, A.2.1, A.4.1 and A.4.2. Details of which will be explained below:

CODE PROVISION A.1.1

Code A.1.1 stipulates that regular Board meetings should be held at least four times a year at approximately quarterly intervals.

During the year ended 31 December 2005, the Board met three times for approving the final results for the year ended 31 December 2004, interim results for the period ended 30 June 2005 and reviewing management accounts of the 3rd quarter ended 30 September 2005.

The reasons for the Company to hold only three regular Board meetings are that the business operations were under the management and supervision of the executive directors of the Company, who had from time to time held meetings to resolve all materials business or management issues. As a result, three regular Board meetings were held in 2005.

The Company has scheduled to hold four Board meetings to comply with Code in 2006.

CODE PROVISION A.2.1

This Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Prior to 27 August 2005, Mr. Tse Kam Pang was both the Chairman and Chief Executive Officer of the Company.

On 27 August 2005, Mr. Tse Kam Pang resigned as Chief Executive Officer of the Company in order to segregate the duties of the Chairman of the Board from those of the Chief Executive officer. Mr. Tse will remain as Chairman and Executive Director of the Company. Mr. Ma Gary Ming Fai, an Executive Director of the Company, was appointed as Chief Executive Officer of the Company on the same date.

CODE PROVISION A.4.1 AND A.4.2

Code A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election.

The term of office for non-executive directors are the same as for all directors (i.e. no specific term and subject to retirement from office by rotation and be eligible for re-election in accordance with the provisions of the Company’s Memorandum and Articles of Association). At every Annual General Meeting, one-third of the directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation.

As from the CG Code coming into effect, the Company has taken action to follow Code A.4.2 to ensure that every director retires by rotation at least once every three years. Two out of six of the directors retired by rotation and were re-elected at last annual general meeting held on 11 May 2005. All non-executive directors will be appointed for a specified term after the Annual General Meeting scheduled to take place on 26 May 2006 and subject to re-election.

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The Key corporate governance principles of the Company are summarized as follows:

THE BOARD

Responsibilities

The Board provides leadership, approves 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.

BOARD COMPOSITION

As of 31 December 2005, the Board of the Company comprised six Directors as below.

Executive Directors:

Mr. Tse Kam Pang (*Chairman*)

Mr. Lam Toi (*Vice-Chairman*)

Mr. Ma Gary Ming Fai (*Chief Executive Officer*)

Independent Non-Executive Directors:

Dr. Donald H. Straszheim

Mr Chang Chu Fai Johnson Francis

Mr. Yau Chung Hong

The biographical details of Directors are disclosed in the appropriate sections in the Annual Report.

The Board met three times in 2005. Details of the Directors' attendance record in the year are as follows:

Directors	Attendance
Mr. Tse Kam Pang	3/3
Mr. Lam Toi	0/3
Mr. Ma Gary Ming Fai	3/3
Dr. Donald H. Straszheim	3/3
Mr Chang Chu Fai Johnson Francis	2/2 *
Mr. Yau Chung Hong	3/3

* Mr. Chang was appointed on 1 July 2005.

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.

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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.

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 Johnson 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 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.

In 2005, the Remuneration Committee held one meeting; the Committee performed the following work during the period under review,

- Reviewed and approved the medical scheme.
- Reviewed and approved the remuneration packages of the CEO.
- Reviewed and approved the insurance policy.

All members of the Committee attended the meeting.

NOMINATION COMMITTEE

The Company did not have a Nomination Committee. The candidates for directorship during the year were selected by the senior management of the Company subject to review and approval of the Board. The criteria adopted by the Board in selecting and approving candidates for directorship are based on whether the candidate is appropriate in terms of experience and the potential contribution to the Group associated with the candidate's appointment. During the year, the Board has appointed Mr. Yau Chung Hong and Mr. Chang Chu Fai Johnson Francis as an independent non-executive Director on each occasion by the full Board of Directors.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors namely Dr. Donald H. Straszheim, Mr Chang Chu Fai Johnson Francis and Mr. Yau Chung Hong, who is the chairman of the Audit Committee.

The main duties of the Audit Committee include the following:

- 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.
- To review the relationship with the External auditor.
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

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There were two meetings of the Audit Committee during 2005. Details of the members' attendance record in the year are as follows:

Directors	Attendance
Dr. Donald H. Straszheim	2/2
Mr. Chang Chu Fai Johnson Francis	1/1 *
Mr. Yau Chung Hong	2/2

* Mr. Chang was appointed on 1 July 2005.

During 2005, the Committee reviewed the financial results of the Group for the year ended 31 December, 2004 and the interim results for the six months ended 30 June, 2005 before they were submitted to the Board for approval. The Committee also reviewed the effects of the new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, which became effective for accounting periods beginning on 1 January, 2005.

The Committee met with the external auditors to discuss the results of their audit for the year ended 31 December 2004. The Committee approved the auditor's remuneration and carried out assessment of their independence.

During 2005, there was no disagreement between the Board and Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

The Audit Committee has been provided with sufficient resources to discharge its duties.

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 on 27 August 2005. 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.

AUDITORS' REMUNERATION

The Company engages Ernst & Young as its External Auditor. An analysis of remuneration in respect of audit and non-audit services provided by the external auditors is included in the Notes to the Accounts in the Annual Report.

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 2005, have applied them consistently with previous financial periods. The statement of our Auditors about their responsibility on the accounts is included in the Report of Auditors.

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 Finance Division 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.

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INTERNAL CONTROLS

Though Code Provision C.2.1 and disclosure requirement under the Listing Rules in relation to internal controls are only effective for the accounting period commenced on or after 1 July 2005, the Board would like to disclose the following details of the internal control of the Company:

The internal audit department, which is independent of 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.

During the year, the Audit Committee discussed and reviewed the internal control matters and system of the Group with senior management of the Company and the external auditors.

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 Company was present at the 2005 AGM.

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".

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