

REVIEW OF OPERATION

For the six months ended 30th June 2002, Chitaly Holdings Limited made a profit before tax of HK\$21.7 million, representing 20.5% increase in comparison with corresponding period of 2001. Our Group's turnover also increased to approximately HK\$94.8 million, representing an increase of approximately 25% in comparison with corresponding period of 2001.

The significant increase in the Group's turnover is mainly due to the launching of our new product line "Black Walnut" at the beginning of the year 2002. The new product line was well accepted by our distributors in the PRC. In order to speed up the market penetration of the new product line, the Group spent more on the promotional expenses to introduce the new products to the market.

As the brand names of our products are well recognized in the PRC market, new distributors keep joining our Group to operate specialty outlets. The further expansion in our distribution network in major cities in the PRC is also a factor to the increase in the Group's turnover.