

INTERIM RESULTS

The Board of Directors of Chitaly Holdings Limited (the “Company”) is pleased to announce the unaudited interim result of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2004 together with the unaudited comparative figures for the same period in 2003 (the “Interim Period”). These interim financial statements as set out in the interim results were reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the Six Months Ended 30 June 2004

	Notes	2004 Unaudited HK\$'000	2003 Unaudited HK\$'000
Turnover	(3)	182,132	121,163
Cost of sales		(122,244)	(78,526)
Gross profit		59,888	42,637
Other revenue	(3)	10,541	8,328
Selling and distribution costs		(8,323)	(4,844)
Administrative expenses		(10,782)	(10,581)
Other operating expenses		(26)	(18)
Profit from operating activities	(4)	51,298	35,522
Tax	(5)	(6,763)	(4,638)
Net profit from ordinary activities attributable to shareholders		44,535	30,884
Dividends			
Final		27,908	18,616
Proposed Interim		29,240	14,238
		57,148	32,854
Earnings per share			
– basic	(6)	18.9 cents	13.2 cents
– diluted	(6)	18.3 cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2004

	Notes	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		143,236	126,593
Intangible assets		7,574	7,574
CURRENT ASSETS			
Inventories		58,847	40,749
Trade receivables	(8)	5,775	4,924
Prepayments, deposits and other receivables		19,101	19,357
Cash and cash equivalents		67,913	77,392
		151,636	142,422
CURRENT LIABILITIES			
Trade payables	(9)	22,053	29,229
Other payables and accruals		35,428	42,924
Tax payable		39,262	33,199
		96,743	105,352
NET CURRENT ASSETS			
		54,893	37,070
TOTAL ASSETS LESS CURRENT LIABILITIES			
		205,703	171,237
NON-CURRENT LIABILITIES			
Deferred tax liabilities	(10)	6,363	6,363
		199,340	164,874
CAPITAL AND RESERVES			
Issued Capital	(11)	24,367	23,257
Reserves	(12)	145,733	113,709
Proposed interim dividend		29,240	–
Proposed final dividend		–	27,908
		199,340	164,874

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

For the Six Months Ended 30 June 2004

	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
TOTAL EQUITY		
Balance at beginning of period	164,874	133,022
Exchange differences on translation of the financial statements of a foreign entity	206	(327)
Net gains and losses not recognised in the consolidated profit and loss	206	(327)
Net profit from ordinary activities attributable to shareholders	44,535	30,884
Dividend paid on ordinary shares	(27,908)	(18,616)
Issue of shares, including share premium	17,633	5,329
Balance at end of period	199,340	150,292

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the Six Months Ended 30 June 2004

	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	23,650	24,905
Net cash outflow from investing activities	(22,854)	(16,932)
Net cash onflow from financing activities	(10,275)	(13,287)
Decrease in cash and cash equivalents	(9,479)	(5,314)
Cash and cash equivalents at beginning of period	77,392	87,838
Cash and cash equivalents at end of period	67,913	82,524
Analysis of balances of cash and cash equivalents		
Cash and bank balances	67,913	82,524

Notes To The Condensed Consolidated Financial Statements

For the Six Months Ended 30 June 2004

1. Basis of Preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" ("SSAP 25") issued by the HKSA and with the applicable disclosure requirements of Appendix 16 to Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

2. Principal Accounting Policies

The accounting policies adopted by the Group in this interim report are consistent with those adopted in the Group's audited financial statements for the year ended 31 December 2003.

3. Turnover and Segment Information

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and after elimination of all significant intra-Group transactions. The Group's principal activity during the six month ended 30 June 2004 was the manufacture and sale of home furniture.

An analysis of the Group's turnover and revenue is as follows:

	For the six months ended	
	30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover – sale of goods	182,132	121,163
Bank interest income	102	1,181
Service fee	10,267	4,234
Others	172	2,913
Other revenue	10,541	8,328
	192,673	129,491

3. Turnover and Segment Information (continued)

An analysis of the Group's turnover by location of customers is as follows:

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Sales to the People's Republic of China ("PRC")	180,603	119,906
Sales to elsewhere in Asia	1,529	1,257
	182,132	121,163

An analysis of the Group's profit from operating activities by location of customers is as follows:

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Sales to the PRC	50,864	35,212
Sales to elsewhere in Asia	434	310
	51,298	35,522

4. Profit from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Staff cost (including directors' remuneration)	19,879	13,663
Depreciation of owned fixed assets	6,313	3,313
Operating lease rentals in respect of buildings	1,698	82

5. Tax

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Current period provision		
Hong Kong	–	41
Macao	4,900	2,563
PRC	1,863	2,034
Tax charge for the period	6,763	4,638

Hong Kong profit tax has not been provided for as the Groups did not generate any assessable profits in Hong Kong during the interim period. (2003: 16%)

Macao complementary profits tax has been calculated at the statutory tax rate of 15.75% on the estimated assessable profits for the interim period of a wholly owned subsidiary of the Company which is engaged in the trading of furniture.

5. Tax (continued)

According to the Income Tax Law of the PRC, certain wholly owned subsidiaries of the Company established in Guangzhou and Dongguan, the PRC, is subject to a preferential corporate income tax rate of 24%, and is exempt from PRC corporate income tax for the first two profitable years of its operations, and thereafter, is eligible for 50% relief from PRC corporate income tax for the following three years. As the subsidiary has suffered from accumulated losses since its establishment, corporate income tax has not been provided for during the interim period.

Certain wholly owned subsidiaries are engaged in the provision of quality control, design and customer services. Provision for tax on the estimated assessable profits of each of these subsidiaries arising from their operations in the PRC has been calculated at the rate of PRC corporate income tax during the interim period, which is currently 33%.

A deferred tax liability has been recognised on the revaluation of the Group's leasehold land and buildings.

6. Earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$44,535,000 (2003: HK\$30,884,000) and the weighted average of 235,632,000 (2003: 233,436,000) ordinary shares.

The weighted average number of ordinary shares of the Company used to calculate the basic earnings per share for the period ended 30 June 2004 included 232,566,000 ordinary shares brought forward at the beginning of that period and 11,100,000 ordinary shares issued in 2004.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$44,535,000 (2003: HK\$30,884,000). The weighted average number of ordinary shares used in the calculation is the 235,632,000 (2003: 233,436,000) ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 8,078,333 (2003: Nil) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options with dilutive effect during the period.

7. Interim dividend

The directors have determined that an interim dividend of HK12 cents per share amounting to HK\$29,239,920 should be paid to the shareholders of the Company whose names appear in the Register of Members on 23 August 2004 and payable on 27 August 2004.

The Register of Members of the Company will be closed from 18 to 23 August 2004, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with Tengis Limited at G/F., Bank of East Asia, Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 pm on 17 August 2004.

8. Trade receivables

An age analysis of trade receivables is as follows:

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Within 30 days	3,752	2,960
31 days – 90 days	1,892	1,852
91 days – 180 days	131	112
Trade receivables, net	5,775	4,924

9. Trade payables

An age analysis of trade payables is as follows:

	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Outstanding balances with aged		
Within 30 days	12,169	19,291
31 days – 90 days	8,932	9,827
91 days – 180 days	952	73
181 days – 360 days	–	–
Over 1 year	–	38
Trade payables, net	22,053	29,229

10. Deferred tax

The movement in deferred tax liabilities during the period is as follows:

Deferred tax liabilities

Group

	2004 Revaluation of leasehold land and buildings HK\$'000
Gross deferred tax liabilities	
At 1 January 2004	6,363
Movement during the period	–
At 30 June 2004	6,363

At 30 June 2004 there is no significant unrecognised deferred tax liability (31 December 2003: HK\$6,363,000) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

10. Deferred tax (continued)

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

11. Share Capital

	Company	
	As at 30 June 2004 (Unaudited) HK\$'000	As at 31 December 2003 (Audited) HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each (2003:2,000,000,000 ordinary shares of HK\$0.10 each)	200,000	200,000
Issued and fully paid:		
243,666,000 ordinary shares of HK\$0.10 each (2003: 232,566,000 nil paid ordinary shares of HK\$0.10 each)	24,367	23,257

The following changes in the Company's authorized and issued share capital took place during the six months ended 30 June 2004.

11. Share Capital (continued)

During the period, the Company issued and allocated 4,600,000 and 6,500,000 ordinary shares of HK\$0.10 each in the Company at HK\$2.18 and HK\$1.17 respectively each for a total cash consideration of HK\$17,633,000 as a result of the exercise of share options. The share issued rank pari passu with the existing shares in all respects.

	Company	
	Number of shares	HK\$'000
Authorized:		
At 1 January 2004 and at		
30 June 2004	2,000,000,000	200,000
At 1 January 2004	232,566,000	23,257
Issue of new shares upon exercise		
of share options during the period	11,100,000	1,110
At 30 June 2004	243,666,000	24,367

Share Options

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the Group's operations. Under the Scheme, the directors may, at their discretion, invite any employees, directors or consultant of any company in the Group to take up options. The Scheme became effective on 26 April 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

11. Share Capital (continued)

Share Options (continued)

The maximum number of shares in respect of which options may be granted under the Scheme, and under any other share option scheme of the Company, pursuant to which options may from time to time be granted to directors, consultants, and/or employees of any company in the Group, shall initially not exceed 10% of the relevant class of securities of the Company in issue excluding for this purpose shares issued on exercise of options under the Scheme and any other share option scheme of the Company. Upon the grant of options for shares up to 10% of the relevant class of securities of the Company and subject to the approval of the shareholders of the Company in general meetings, the maximum number of shares to be issued under the Scheme when aggregated with securities to be issued under any other share option scheme of the Group, may be increased by the board of directors provided that the shares to be issued upon exercise of all outstanding options does not exceed 30% of the relevant class of securities in issue from time to time.

11. Share Capital (continued)

Share Options (continued)

No option may be granted to any one person such that the total number of shares issued and to be issued upon exercise of options granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the issued share capital of the Company from time to time. An option may be exercised in accordance with the terms of the Scheme at any time during the option period (and not more than ten years after the date of grant). The option period will be determined by the board of directors and communicated to each grantee. The board of directors may provide restrictions on the time during which the options may be exercised. There are no performance targets which must be achieved before any of the options can be exercised. However, the board of directors retains discretion to accelerate vesting of fixed-term options in the event that certain performance targets are met. The movements in the number of share options to subscribe for shares in the Company during the period were as follows:

Name	At the beginning of the period	Granted during the period	Exercised during the period	At the end of the period	Date of grant of share options	Exercise price per share (HK\$)	Exercisable period	Price of Company's shares at grant date of options (HK\$)
Tse Kam Pang	2,300,000	-	2,300,000	-	18/9/2003	HK\$2.18	1/11/2003 to 31/10/2006	HK\$2.18
Lam Toi	2,300,000	-	2,300,000	-	18/9/2003	HK\$2.18	1/11/2003 to 31/10/2006	HK\$2.18
Senior management and employees	6,500,000	-	6,500,000	-	2/5/2003	HK\$1.17	1/6/2003 to 31/5/2006	HK\$1.17
In aggregate	11,100,000	-	11,100,000	-				

At the balance sheet date, the Company had no share options outstanding.

12. Reserve

	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Leasehold land and buildings revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003	9,048	367	20,150	55,478	85,043
Exercise of share options	4,599	–	–	–	4,599
Repurchase of shares, including expenses	(10,629)	–	–	–	(10,629)
Translation exchange differences arising on consolidation of a subsidiary	–	(402)	–	–	(402)
Net profit for the year	–	–	–	77,244	77,244
Interim dividend	–	–	–	(14,238)	(14,238)
Proposed final dividend	–	–	–	(27,908)	(27,908)
At 31 December 2003	3,018	(35)	20,150	90,576	113,709
Exercise of share options	16,523	–	–	–	16,523
Translation exchange differences arising on consolidation of a subsidiary	–	206	–	–	206
Net profit for the period	–	–	–	44,535	44,535
Proposed interim dividend	–	–	–	(29,240)	(29,240)
At 30 June 2004	19,541	171	20,150	105,871	145,733

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend

The Board of Directors recommends payment of an interim dividend of HK12 cents per share for the six months ended 30 June 2004.

Business Review

The Group posted another strong half year with turnover rising 50.3% to HK\$182 million for the six months ended 30 June 2004. It also maintained gross profit margin at around 32.9%. The Group's commitment in branding and new product development is the reason for the robust financial performance. By improving production efficiencies and matching strong demands from distributors, the Group also enhanced profitability. Net profit surged 44.2% to HK\$44.5 million while net profit margin was 24.5% for the six months ended 30 June 2004.

As the Chinese population becomes more affluent, modern style furniture also gains popularity thus presenting a favorable business environment for the Group to further expand its market presence and introduce new product during the review period. With ownership of the award-winning brand names, "Royal" and "Knight", the Group enjoys satisfactory margins in the industry. Featuring well-known actress Ms Rosmund Kwan, these brands are promoted via the print media, and on billboards and television. During the review period, the Group marketed five series, namely "Light Walnut", "Ebony", "Black Walnut", "Glossy" and "Light Oak", of mid to high-end modern style home furniture.

As at 30 June 2004, the Group's products were distributed nationwide through more than 710 specialty outlets in 29 provinces in China. The Group increased the number of stores by over 100 in the review period, most of which are located in 2nd-tier cities. Besides overseeing the operation of the vast network of outlets, the sales and marketing team of the Group also played an integral role in building relationships with existing and potential franchisees. The Group participated in the 2004 China (Dongguan) International Famous Furniture Exhibition in March this year. This trade fair is an important channel for the Group to extend brand recognition and market presence in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

As a close business partner of its franchisees, the Group offers sourcing services to them, hence ensures consistency of its branded image. These sourcing services include non-wooden furniture and accessories such as sofa, desks, coffee tables, dining tables, etc. They provide the Group with an additional and promising income stream, and during the review period it generated for the Group around HK\$10 million in service fees.

To match the strong market demand, the Group increased its production facility by setting up a new factory in Dongguan early this year. Together with its existing facility in Guangzhou, the Group's production facilities have a total production floor area of 110,000 sq. m. and can produce up to 14,000 sets of furniture per month. These investments are crucial for the Group in ensuring that its production align with franchisees' needs and support its future business growth.

Prospects

Looking ahead into the second half of the year, the Group will remain committed to securing sustainable growth. With the economy reviving and consumer spending continuing to rise in China, the Group is confident that its business will record tremendous progress in the future.

Striving to enhance its core business, the Group focuses on improving its design capability and staying abreast of consumers' needs and market trends. In July this year, the Group launched a new brand, "Simply", to further enrich its product lines and enforce its branding strategies. The European contemporary designs and sophisticated craftsmanship using the advanced material, veneer, are the main differentials of the "Simply" brand. The Group targets at opening around 50 stores under the brand "Simply" in the next six months with priority rights to be given to existing franchisees in major cities.

With regards to management of the distribution network, the Group will continue to work closely with franchisees to ensure they achieve desired levels of profitability. Taking into account the business progress made in the first half of the year, the Group is optimistic that it will achieve a total of 800 outlets by the end of the year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Prospects (continued)

The Group will also improve production efficiency to obtain higher yields and speed up response time to match market demands. To achieve these objectives, the Group invested in expanding its production capacity and logistics capabilities earlier this year. These efforts will enable the Group to extend market reach more rapidly.

The Group believes that leveraging its high brand reputation, the quality and innovative designs of its products, its extensive distribution network and time-to-market production system, it will be able to sustain top and bottom line growth and bring satisfactory returns to its shareholders.

Liquidity and financial resources

As at 30 June 2004, the Group had an unaudited consolidated net asset value of approximately HK\$199 million. (31 December 2003: HK\$165 million). The Group maintained a strong financial position with cash and bank balances of HK\$68 million and has no interest-bearing borrowings as at 30 June 2004. The Group is principally financed by net cash inflow from operating activities. The Group believes that funds generated from its internal operations are adequate to meet the future requirements of operating its business.

As at 30 June 2004, the Group had no contingent liabilities and bank borrowing. As at the same date, the gearing ratio, calculated on the basis of total liabilities over total shareholders' fund was 0.52.

Over 90% of the Group's cash is either denominated in Hong Kong Dollars and Renminbi. The exposure to exchange fluctuation is minimal.

The liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 1.57 times, which improved from the 1.35 times applicable at the end of 2003. As at 30 June 2004, the net current assets was approximately HK\$55 million (31 December 2003: HK\$37 million).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Employment and remuneration policy

The total number of employees of the Group as at 30 June 2004 was around 1,500 (2003: 1,000).

The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. At 30 June 2004, there were no outstanding share options.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARE

At 30 June 2004, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of interests) Ordinance ("SDI Ordinance") were as follows:

Name of Directors	Number of ordinary shares held				Total Interests
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Tse Kam Pang	4,600,000	–	71,450,000 (note 1)	–	76,050,000
Lam Toi	4,600,000	–	71,450,000 (note 2)	–	76,050,000
Lam Ning, Joanna	1,900,000	–	–	–	1,900,000

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARE (continued)

Notes

1. These shares are held by Crisana International Inc., which is wholly and beneficially owned by Mr. Tse Kam Pang.
2. These shares are held by Silver Wave Holdings Limited, which is wholly and beneficially owned by Mr. Lam Toi.

Save as disclosed above, none of the directors, chief executive or any of their spouse or children under the age of 18 years had any interest in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that no person has an interest of 5% or more in the issued share capital of the Company as at 30 June 2004, other than the interests disclosed in the section "Interests of Directors and Chief Executive in share" above.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not or, was not for any part of the six months ended 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except all directors of the Company are not appointed for a specific term as they are subject to retirement by rotation in accordance with the Company's Articles of Association.

By Order of the Board
Chitaly Holdings Limited of
Tse Kam Pang
Chairman