

REPORT OF THE DIRECTORS

The directors of Chitaly Holdings Limited (the "Company") present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 52.

An interim dividend of HK12 cents per ordinary share was paid on 27 August 2004. The directors recommend the payment of a final dividend of HK14 cents per ordinary share (note 11) in respect of the year, to shareholders on the register of members on 6 May 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

Upon the listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 May 2002 and issue of shares on the same date, the proceeds, after netting of related expenses paid and payable, were approximately HK\$32 million. As at 31 December 2004, HK\$10 million, HK\$12 million and HK\$5 million was used for the construction of new factories, for the purchase of machinery and equipment and for marketing and promotional activities, respectively. The remaining proceeds are deposited in financial institutions and licensed banks in Hong Kong.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated/combined financial results and of consolidated/combined assets and liabilities of the Group for the last five financial years, prepared on the basis set out in the note below:

	Year ended 31 December				
	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RESULTS					
Turnover	403,766	300,719	207,020	164,758	143,669
Profit before tax	131,857	88,998	51,252	37,615	31,326
Tax	(23,855)	(11,754)	(6,738)	(5,138)	(4,715)
Net profit from ordinary activities attributable to shareholders	108,002	77,244	44,514	32,477	26,611

SUMMARY FINANCIAL INFORMATION (continued)

	31 December				
	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
Non-current assets	183,386	134,167	75,662	45,319	42,642
Current assets	245,912	142,422	118,931	53,536	32,793
Current liabilities	(177,188)	(105,352)	(61,571)	(53,525)	(40,542)
Non-current liabilities	(18,634)	(6,363)	(6,363)	–	(3,440)
	233,476	164,874	126,659	45,330	31,453

Note: The summary of the combined results of the Group for the two years ended 31 December 2001 and the combined balance sheets of the Group as at 31 December 2000 and 2001 have been extracted from the Company's prospectus dated 2 May 2002. The results of the Group for the years ended 31 December 2003 and 2004 and its assets and liabilities as at those dates are set out on pages 21 and 22 of the financial statements, respectively, and are presented on the basis set out in note 3 to the financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 23 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements and in the consolidated summary statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law of the Cayman Islands, amounted to HK\$56,747,000, of which HK\$34,113,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$64,685,000, may be distributed in the form of fully paid bonus shares.

REPORT OF THE DIRECTORS

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make any charitable contributions (2003: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 17.4% of the Group's turnover for the year and sales to the Group's largest customer included therein amounted to 4.3%. Purchases from the Group's five largest suppliers accounted for approximately 58% of the total purchase for the year and purchase from the Group's largest supplier included therein amounted to 17%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Tse Kam Pang

Mr. Lam Toi

Ms. Lam Ning, Joanna

Independent non-executive directors:

Mr. Tsao Kwang Yung, Peter

Mr. Donald H. Straszheim (appointed on 23 September 2004)

Mr. Ma Ming Fai, Gary

Subsequent to the balance sheet date, on 21 January 2005, Mr. Ma Ming Fai, Gary resigned as an independent non-executive director and was appointed as an executive director of the Company; and Mr. Yau Chung Hong was appointed as an independent non-executive director.

In accordance with article 87 of the Company's articles of association, one-third of the directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the independent non-executive directors, but excluding the chairman of the board of directors of the Company, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive and independent non-executive directors has entered into a service agreement with the Company for an initial term of two years commencing from 1 May 2002, which will automatically continue thereafter until terminated by not less than two months' notice in writing served by either party to the other.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, the interests and short positions of the directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Notes	Number of shares held, capacity and nature of interest				Percentage of the	
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Total	Company's issued share capital
Mr. Tse Kam Pang	(a)	4,600,000	-	71,450,000	-	76,050,000	31.21%
Mr. Lam Toi	(b)	4,600,000	-	28,450,000	-	33,050,000	13.57%
Ms. Lam Ning, Joanna		1,900,000	-	-	-	1,900,000	0.78%
		11,100,000	-	99,900,000	-	111,000,000	45.56%

The interests of the directors in the share options of the Company are separately disclosed in note 23 to the financial statements.

Notes:

- (a) The 71,450,000 shares of the Company are held by Crisana International Inc. ("Crisana"), a company incorporated in the British Virgin Islands. As at 31 December 2004, Mr. Tse Kam Pang held 100% of the issued share capital of Crisana.
- (b) The 28,450,000 shares of the Company are held by Silver Wave Holdings Limited ("Silver Wave"), a company incorporated in the British Virgin Islands. As at 31 December 2004, Mr. Lam Toi held 100% of the issued share capital of Silver Wave.

No directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2004, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 23 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

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 consultants of any company in the Group to acquire 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.

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 this 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 do not exceed 30% of the relevant class of securities in issue from time to time.

No option may be granted to any one person such that the total number of shares issued and to be issued upon the 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 10 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 the vesting of fixed-term options in the event that certain performance targets are met.

The subscription price for the Company's shares under the Scheme will be a price determined by the board of directors and notified to each grantee. The subscription price will be the highest of: (i) the nominal value of a share; and (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; and (iii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant. An option shall be deemed to have been granted and accepted by an eligible participant (as defined in the Scheme) and to have taken effect when the acceptance form as described in the share option scheme is completed, signed and returned by the grantee with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant.

SHARE OPTION SCHEME (continued)

As at 31 December 2004, the number of shares issuable under share options granted under the Scheme was 6,900,000, which represented 3% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options which may be granted to each eligible participant in the Scheme within any 12-month period up to the date of latest grant, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the shareholders' approval in a general meeting.

The share options granted under the Scheme for a consideration of HK\$1.00 per grant during the year are set out below:

Name or category of participant	Number of share options						Date of grant of share options*	Exercise period	Exercise price per share** HK\$	Price of the Company's shares ***	
	At the beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At the end of the year				At grant date of options HK\$	At exercise date of options HK\$
Director											
Tse Kam Pang	2,300,000	-	(2,300,000)	-	-	-	18/9/2003	1/11/2003 to 31/10/2006	2.18	2.18	3.60
Lam Toi	2,300,000	-	(2,300,000)	-	-	-	18/9/2003	1/11/2003 to 31/10/2006	2.18	2.18	3.60
Donald H. Straszheim	-	800,000	-	-	-	800,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80	-
Others											
Members of senior management and other employees of the Group	6,500,000	-	(6,500,000)	-	-	-	2/5/2003	1/6/2003 to 31/5/2006	1.17	1.17	3.60
	-	100,000	-	-	-	100,000	28/9/2004	29/9/2004 to 28/9/2014	4.80	4.80	-
	-	6,000,000	-	-	-	6,000,000	15/10/2004	16/10/2004 to 15/10/2014	4.675	4.55	-
	6,500,000	6,100,000	(6,500,000)	-	-	6,100,000					
In aggregate	11,100,000	-	(11,100,000)	-	-	-					
	-	6,900,000	-	-	-	6,900,000					
	11,100,000	6,900,000	(11,100,000)	-	-	6,900,000					

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

The financial impact of the share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and members of senior management and other employees of the Group, because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 31 December 2004, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Crisana	(a)	Directly beneficially owned	71,450,000	29.32%
Silver Wave	(b)	Directly beneficially owned	<u>28,450,000</u>	<u>11.68%</u>

(a) The ordinary shares and share options are held by Crisana, which is wholly owned by Mr. Tse Kam Pang, a director.

(b) The ordinary shares and share options are held by Silver Wave, which is wholly owned by Mr. Lam Toi, a director.

Save as disclosed above, as at 31 December 2004, no person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, and their spouses who are deemed to be interested in the same shares had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 28 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice, as set out in the previous Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code of Best Practice, but are subject to retirement by rotation in accordance with the Company's articles of associations.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Tse Kam Pang

Chairman and Executive Director

Hong Kong

8 April 2005