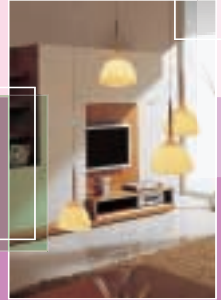
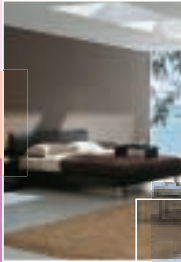
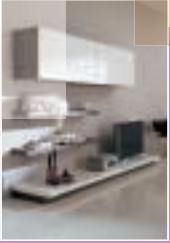




CHITALY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1198)



Interim Report

2006

CHITALY HOLDINGS LIMITED

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CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

		2006	2005
		(Unaudited)	(Restated)
	Notes	HK\$'000	(Unaudited)
			HK\$'000
REVENUE	4	193,581	232,024
Cost of sales		(140,644)	(151,959)
Gross profit		52,937	80,065
Other income and gains	4	19,517	17,734
Selling and distribution costs		(41,662)	(16,861)
Administrative expenses		(23,649)	(13,852)
Share option reserve		(302)	(6,587)
PROFIT FROM OPERATING ACTIVITIES		6,841	60,499
Finance cost	6	(316)	(186)
Share of losses of an associate		(222)	(217)
Other operating expenses		(402)	(34)
PROFIT BEFORE TAX	5	5,901	60,062
Tax	7	–	(10,729)
NET PROFIT FOR THE PERIOD			
ATTRIBUTABLE TO EQUITY HOLDERS			
OF THE PARENT		5,901	49,333
DIVIDENDS	8		
Final		14,306	34,113
Proposed interim		–	25,276
		14,306	59,389
EARNINGS PER SHARE ATTRIBUTABLE TO			
EQUITY HOLDERS OF THE PARENT			
Basic	9	2.3 cents	20.2 cents
Diluted	9	2.2 cents	19.4 cents

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CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		231,007	198,038
Prepaid land lease payments		19,221	13,672
Goodwill		21,454	21,454
Other intangible assets		6,080	6,678
Interests in an associate		14,355	7,967
		<hr/>	
Total non-current assets		292,117	247,809
		<hr/>	
CURRENT ASSETS			
Inventories		101,960	99,257
Trade receivables	10	16,327	19,175
Prepayments, deposits and other receivables		55,408	59,262
Cash and cash equivalents		47,514	119,313
		<hr/>	
Total current assets		221,209	297,007
		<hr/>	
CURRENT LIABILITIES			
Trade payables	11	50,494	61,762
Other payables and accruals		44,635	56,457
Interest-bearing bank loan		607	607
Tax payables		59,930	59,930
		<hr/>	
Total current liabilities		155,666	178,756
		<hr/>	

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

		As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
	Notes		
NET CURRENT ASSETS		65,543	118,251
TOTAL ASSETS LESS CURRENT LIABILITIES		357,660	366,060
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		11,434	11,731
Deferred tax liabilities		6,363	6,363
Total non-current liabilities		17,797	18,094
Net assets		339,863	347,966
EQUITY			
Issued capital	12	26,011	26,011
Reserves	13	313,852	307,649
Proposed final dividend		-	14,306
Total equity		339,863	347,966

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital	Share premium account	Share option reserve	Asset Revaluation reserve	Exchange Fluctuation reserve	Retained profits	Proposed final dividend	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2005	24,367	19,541	-	20,150	80	135,225	34,113	233,476
Exchange realignment	-	-	-	-	(275)	-	-	(275)
Total income and expenses for the period recognized directly in equity	-	-	-	-	(275)	-	-	(275)
Net profit for the period	-	-	-	-	-	49,333	-	49,333
Total income and expenses for the period	-	-	-	-	(275)	49,333	-	49,058
Payment of 2004 final dividend	-	-	-	-	-	-	(34,113)	(34,113)
Share option exercised	240	10,980	-	-	-	-	-	11,220
Equity-settled share option arrangements	-	-	6,587	-	-	-	-	6,587
As at 30 June 2005 (Unaudited)	24,607	30,521	6,587	20,150	(195)	184,558	-	266,228
Exchange realignment	-	-	-	-	7,509	-	-	7,509
Total income and expenses for the period recognized directly in equity	-	-	-	-	7,509	-	-	7,509
Net profit for 2nd half of the year 2005	-	-	-	-	-	28,859	-	28,859
Total income and expenses for the period	-	-	-	-	7,509	28,859	-	36,368
Issue of shares	2,000	98,000	-	-	-	-	-	100,000
Repurchase of shares	(596)	(23,623)	-	-	-	-	-	(24,219)
Share issue expenses	-	(2,552)	-	-	-	-	-	(2,552)
Equity-settled share option arrangements	-	-	(2,247)	-	-	-	-	(2,247)
Payment of 2005 Interim dividend	-	-	-	-	-	(25,612)	-	(25,612)
Proposed 2005 final dividend	-	-	-	-	-	(14,306)	14,306	-
As at 31 December 2005 (Audited)	26,011	102,346	4,340	20,150	7,314	173,499	14,306	347,966

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Issued share capital HK\$'000	Share premium account HK\$'000	Share option reserve HK\$'000	Asset Revaluation reserve HK\$'000	Exchange Fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
As at 1 January 2006	26,011	102,346	4,340	20,150	7,314	173,499	14,306	347,966
Payment of 2005 final dividend	-	-	-	-	-	-	(14,306)	(14,306)
Equity-settled share option arrangements	-	-	302	-	-	-	-	302
Net profit for the period	-	-	-	-	-	5,901	-	5,901
As at 30 June 2006 (Unaudited)	26,011	102,346	4,642	20,150	7,314	179,400	-	339,863

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CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	(858)	56,260
Net cash outflow from investing activities	(56,022)	(46,935)
Net cash outflow from financing activities	(14,919)	(23,243)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(71,799)	(13,918)
Cash and cash equivalents at beginning of the period	119,313	85,758
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	47,514	71,840
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	47,514	71,840

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2006 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) No. 34, ‘Interim financial reporting’ and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). The interim condensed financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards, amendments to Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the “new HKFRSs”) issued by the HKICPA that are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The application of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, which the Group has determined to be by business segment; and (ii) on a secondary segment reporting basis, which the Group has determined to be by geographical segment.

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3. SEGMENT INFORMATION (continued)

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

For the six months ended 30 June 2006

	Wholesales (Unaudited) HK\$' 000	Retailing (Unaudited) HK\$' 000	Others (unallocated) (Unaudited) HK\$' 000	Total (Unaudited) HK\$' 000
Turnover	159,790	33,791	–	193,581
Cost of sales	(124,237)	(16,407)	–	(140,644)
Gross profit	35,553	17,384	–	52,937
Gross profit margin	22.3%	51.4%		27.3%
Other income and gains	17,527	123	1,867	19,517
Selling expenses	(22,821)	(18,841)	–	(41,662)
Administrative expenses	(17,689)	(2,049)	(3,911)	(23,649)
Share of losses of an associate			(222)	(222)
Other operating cost	–	–	(402)	(402)
Share option reserve	–	–	(302)	(302)
Finance costs	–	–	(316)	(316)
Net profit for the period	12,570	(3,383)	(3,286)	5,901

3. SEGMENT INFORMATION (continued)

For the six months ended 30 June 2005

	Wholesales (Unaudited) HK\$' 000	Retailing (Unaudited) HK\$' 000	Others (unallocated) (Unaudited) HK\$' 000	Total (Unaudited) HK\$' 000
Turnover	219,758	12,266	–	232,024
Cost of sales	(147,137)	(4,822)	–	(151,959)
Gross profit	72,621	7,444	–	80,065
Gross profit margin	33.0%	60.7%	–	34.5%
Other income and gains	8,052	7	9,675	17,734
Selling expenses	(12,665)	(4,190)	(6)	(16,861)
Administrative expenses	(7,490)	(295)	(6,067)	(13,852)
Share of losses of an associate	–	–	(217)	(217)
Other operating cost	–	–	(34)	(34)
Share option reserve	–	–	(6,587)	(6,587)
Finance costs	–	–	(186)	(186)
Income tax	–	–	(10,729)	(10,729)
Net profit for the period	60,518	2,966	(14,151)	49,333

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. An analysis of the Group's turnover by location of customers is as follows:

	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Segment revenue		
Sales to the People's Republic of China ("PRC")	189,653	228,904
Sales to elsewhere	3,928	3,120
	193,581	232,024

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4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains is as follows:

	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue	193,581	232,024
Other income and gains		
Bank interest income	242	116
Service income	18,412	11,891
Gain on disposal of equity investments at fair value through profit or loss	763	–
Gain on revaluation of property	–	5,650
Others	100	77
	19,517	17,734
	213,098	249,758

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of sales	140,644	151,959
Depreciation	11,899	6,263
Amortisation of licence rights of trademarks	598	379
	<hr/>	<hr/>

The Group's profit for the period mainly represents sale of home furniture in the PRC.

6. FINANCE COSTS

	Group	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on a bank loan	316	186
	<hr/>	<hr/>

7. TAX

Hong Kong profits tax has not been provided at the rate of 17.5% (2005: 17.5%) as the Group did not generate any assessable profits in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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7. TAX (continued)

	Group	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Group:		
Current – Macao profits tax	–	7,942
Current – PRC corporate income tax	–	2,787
Total tax charge for the period	–	10,729

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

Pursuant to the Macao SAR's Offshore Laws, a subsidiary which is a Macao Offshore Company, is exempted from all the taxes in Macao, including income tax, industrial tax and stamp duties.

According to the Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprise, certain wholly-owned subsidiaries of the Company established in Guangzhou and Dongguan, the PRC, are subject to a preferential corporate income tax rate of 24%, and are also exempt from PRC corporate income tax for the first two profitable years of its operations, and thereafter, are eligible to a 50% relief from PRC corporate income tax for the following three years.

There was no significant unprovided deferred tax for the period or at the balance sheet date.

8. DIVIDEND

The Board does not recommend the payment of an interim dividend. (2005: HK9.5 cents)

9. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the net profit from ordinary activities attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share amount is based on the net profit from ordinary activities attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	5,901	49,333

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9. EARNINGS PER SHARE (continued)

	Number of shares	
	2006 (Unaudited)	2005 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	260,114	244,493
Effect of dilution – weighted average number of ordinary shares:		
Share options	8,783	9,893
	268,897	254,386

10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 to 90 days. Each customer has a maximum credit limit. Trade receivables are non-interest-bearing.

10. TRADE RECEIVABLES (continued)

An aged analysis of the accounts receivable as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	Group	
	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within 30 days	11,198	10,604
31 days to 90 days	2,874	4,473
91 days to 180 days	962	2,959
Over 180 days	1,293	1,139
	<hr/> 16,327 <hr/>	<hr/> 19,175 <hr/>

Included in the Group's trade receivables are amounts due from the Group's associate of HK\$2,441,000 which are repayable on similar credit terms to those offered to the major customers of the Group.

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11. TRADE PAYABLES

An aged analysis of the accounts payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within 30 days	30,128	36,582
31 days to 90 days	18,214	22,192
91 days to 180 days	1,852	2,662
181 days to 360 days	157	204
Over 360 days	143	122
	<hr/>	<hr/>
	50,494	61,762

12. SHARE CAPITAL

Shares

	Company	
	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Authorised:		
2,000,000,000 (2005: 2,000,000,000) ordinary shares of HK\$0.10 each	200,000	200,000
	<hr/>	<hr/>
Issued and fully paid:		
260,114,000 (2005: 260,114,000) ordinary shares of HK\$0.10 each	26,011	26,011
	<hr/>	<hr/>

There is no movement in share capital during the period.

12. SHARE CAPITAL (continued)

Share options

The Company operates a share option scheme for eligible participants to subscribe for new shares of the Company. A summary of the terms of the share option scheme was disclosed in the Company's 2005 annual report.

During the period, the Company has granted 1,500,000 share options which will be exercisable during the period from 3 January 2006 to 4 January 2016 at an exercise price of HK\$3.6 per share under its share option scheme. The Share Option granted will be divided into five equal slots. (i.e. 300,000 share option each slot) Each slot will become exercisable upon one additional year of employment (from the date of grant) is completed by the grantee. Any un-exercisable share options will be forfeited immediately if the grantee's employment in the Company is terminated. As at 30 June 2006, all such share options remain unexercised and outstanding.

13. RESERVES

The amount of the Group's reserves and the movements therein for the current period and prior period are presented in the consolidated statement of changes in equity on page 4 and 5 of the report.

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14. RELATED PARTIES TRANSACTIONS

- (a) During the period under review, the Group had entered into transaction with an associate, details are as follow:

	Group	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Associate:		
Sales of products	1,972	–

The sales to an associate were made according to the published prices and conditions offered to the major customers of the Group.

- (b) Outstanding balance with an associate:

Details of the Group's trade balance with its associate as at the balance sheet date is disclosed in notes 10 to the financial statements.

15. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were reviewed by the audit committee and approved and authorised for issue by the board of directors on 11 September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period under review, the domestic furniture market in PRC faced an unfavorable operating environment that was marked by much intensified competition; the Chinese Government stepped up more macroeconomic measures to control overinvestment in property market in the last few months, increase in interest rate in China and rising costs. The overall performance of the Group was thus diminished.

The Group's turnover was down 16.6% to HK\$194 million for the six months ended 30 June 2006. Operating profit, however, fell by 88.7% to HK\$6.8 million (2005: HK\$60 million), net profit was HK\$5.9 million (2005: HK\$49 million), the decrease in net profit was a result of drop in gross profit margin, increase in selling and distribution costs and in administration costs as a result of unfavorable operating environment and intensifying market competition.

The Gross profit margin decreased from 34.5% of the same period last year to 27.3%. The sales of the Group were generated from retail and wholesales sales. The Group's retail sales for the period was about HK\$34 million (2005: HK\$12 million), and had a gross margin of 51.4% (2005: 60.7%). The gross margin of wholesales to franchisees decreased to 22.3% (2005: 33%). The Group's gross profit margin had been adversely affected by the general increase in costs such as rising oil prices, costs of raw materials and labour costs, together with Group's competitive pricing policy.

Selling and distribution costs rose by HK\$25 million to HK\$42 million (2005: HK\$17 million). The major areas of increase were promotion and advertising expenses which increased by HK\$7 million, with the impact of full period operation of the own retails resulted in an increment of HK\$15 million. As a step towards integrating its brands and corporate image and an effort to set a model retail operation, the Group retrieved franchise rights from franchisees in cities including Shanghai and Shenzhen in early 2005 and subsequently develop shops in Beijing.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

The management of the Group believes that competitive pressure in furniture market is very intense. Competition among the industry is expected to be focused on branding, quality and customer services. The Group has endeavored to strengthen the brand identity, services and image, Featuring well-known celebrity Ms. Rosmund Kwan, the Group has been promoting extensively its brands and products via the print media, and on billboards as well as television. In addition, the Group participated in major furniture shows in China.

The administration costs rose by HK\$9.8 million to HK\$23.6 million (2005: HK\$13.8 million). This was mainly attributable to general increase in costs, particularly in salary and allowances.

The Group recognized that quality is the core of an enterprise, devoted to offering superior quality products, the Group's products were accredited with "CQC Environmental Product Certification", "ISO 9001 standard" "CTA Quality Assurance Certificate", etc, earlier this year, the Group furtherly emphasized the importance of quality by organizing "Quality enhancement activities". Franchisees were invited to participate actively together with all level of staff, the theme of the activities is "Producing the best products for our customers". The Group's efforts are very focused on satisfying the needs of its customers, consumers are increasingly demanding for more choices, to meet the rising expectations and needs of customers, the Group launched more product lines which are narrowly focused. This strategy strengthened our leadership in our segment.

In order to maintain our leadership and to prepare for further growth in the market, during the period under review, the Group has expanded its production capacity by completing the first phase of the new plant in Guangzhou. With the expansion of production capacity, the Group will have adequate capacity to meet the expected demand in 2006. As planned the construction of the entire plant will be completed in three to five years. By then, the Group's total production capacity will be boosted by 150%.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

As at 30 June 2006, the Group's quality products were distributed nationwide through over 1,050 specialty outlets in 29 provinces in China. Experienced a rapid growth in the distribution network in the past few years, the Group adopts quality and health expansion strategies, where more stringent criteria applied for new shops opening, more communication with the existing franchisees for improving the quality of the existing network.

Prospect

The Group anticipates that the overall market conditions faced by the Group will remain to be challenging. Market players compete for survival by offering low price products, which may further undermine profit margin. The Group will focus on the medium to high end home furniture market in PRC. Facing the uncertain momentum of the PRC macroeconomic control measures and the inflationary pressure of the operating environment, nevertheless, the Group is cautiously optimistic about the future in medium to long term. Despite the rising cost environment that the Group is facing, cost control measures are deployed to ensure operational efficiency in areas including production, selling and administration. The Group recognizes the importance of operational fundamentals and the backend supporting for its coming developments, certain initiatives have been taken, these initiatives will equip and prepare itself to overcome any market challenges and grasp every opportunity ahead.

Looking ahead, Chitaly's management continues to work together, move ahead, and strive for changes. The Group continues to expand its distribution network to broaden the product reach to fast growing cities in China, to enhance the quality of its franchisees, to enhance product quality and its services provide to customers, to enhance it brand further, and hence strengthen its leading position in the medium to high-end home furniture markets.

By leveraging on the solid foundation, the well-established leading position in the industry in PRC, the effective marketing strategies, outstanding design capabilities, the Group is confident of overcoming the challenges ahead.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained cash and bank balances of HK\$48 million as at 30 June 2006 (31 December 2005: HK\$119 million). Other than the proceeds from the initial public offering and a share placing in July 2005, 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 2006, except for an interest-bearing bank loan amounting to HK\$12 million, the Group had no other bank borrowings and contingent liabilities. As at the same date, the gearing ratio was 0.49 (2005: 0.57). As at 30 June 2006, approximately 25% of the Group's cash was dominated in Hong Kong Dollars, and 72% of the Group's cash was dominated in Renminbi. The exposure to exchange fluctuation was minimal.

The liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 1.42 times, comparing with the 1.66 times applicable at the end of 2005. As at 30 June 2006, the net current assets was HK\$65,543,000 (2005: 118,251,000).

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 30 June 2006 was approximately 2,800 (2005: 3,200). 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 2006, there were outstanding share options of approximately 12 million.

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied throughout the period of six-month ended 30 June 2006 and adopted all the code provisions set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules, except for the following deviation:

Code Provision A.4.1

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

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.

On 7 June 2006, all non-executive directors have been appointed for a specific term of three years and subject to re-election.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted for compliance by the directors 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.

Having made specific enquiry of all directors of the Company, they have complied with the required standards set out in the Model Code for the period ended 30 June 2006.

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PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its listed securities during the period under review. Neither the Company nor any of its subsidiaries has purchase or sold any of the Company's securities during the period under review.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES

As at 30 June 2006, the interests or short positions of the directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

Interests in the Company:

Name of Directors	Long position/ Short position	Number of shares	Number of share options¹	Aggregate percentage of interest as at 30 June 2006²
Tse Kam Pang	Long position	76,050,000 ³	–	29.24%
Ma Gary Ming Fai	Long position	200,000	–	0.08%
Donald H. Straszheim	Long position	–	800,000	0.31%
Yau Chung Hong	Long position	–	200,000	0.08%
Chang Chu Fai	Long position	–	200,000	0.08%
Johnson Francis				

Notes:

1. The number of share options refers to the number of underlying shares of the Company covered by the share options granted under the section headed "Share Options".

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES (continued)

2. This represents the percentage of aggregate long position in shares and underlying shares to the total issued share capital of the Company as at 30 June 2006.
3. Of these 76,050,000 shares, 4,600,000 shares were held by Mr. Tse Kam Pang personally and 71,450,000 shares were held by Crisana International Inc., a company which is wholly and beneficially owned by Mr. Tse Kam Pang.
4. Save as otherwise specified under note 3, interests disclosed hereunder were being held by each director in his capacity as beneficial owner.

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

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, so far as is known to the directors or chief executive of the Company, the following persons (not being a director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register maintained by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Number of Shares	Aggregate percentage of interest as at 30 June 2006 ¹
Crisana International Inc.	71,450,000 ²	27.47%
Templeton Investment Counsel, LLC	19,910,000	7.65%
J.P. Morgan Chase & Co.	19,616,000 ³	7.54%
Lloyd George Investment Management (Bermuda) Ltd.	15,560,000	5.98%
Merrill Lynch & Co., Inc.	14,345,000	5.51%

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

1. This represents the percentage of aggregate long position in shares and underlying shares to the total issued share capital of the Company as at 30 June 2006.
2. These 71,450,000 shares were held by Crisana International Inc., a company which is wholly and beneficially owned by Mr. Tse Kam Pang, the Chairman of the Company. In addition, Mr. Tse Kam Pang personally held 4,600,000 shares.
3. This includes long position and lending pool.

Save as disclosed herein, so far as is known to the directors or chief executive of the Company, as at 30 June 2006, no other person had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provision of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register kept by the Company under section 336 of the SFO.