

## CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the annual results of Chitaly Holdings Limited for the year ended 31 December 2004.

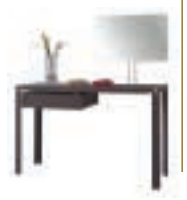
2004 was a successful year for Chitaly. We attained record high in both turnover and profit. Turnover increased 34.3% from HK\$300.7 million last year to HK\$403.8 million this year. Net profit for the year amounted to HK\$108.0 million, representing a surge of 39.9% as compared to HK\$77.2 million in 2003. The results were attributable to our commitment in brand building and new product development as well as efforts to expand the Group's production facility. Additional production facility supported the launch of new product series and also helped the management to better allocate and apply existing resources, and the enlarged production volume brought about economies of scale benefits. Together with stringent cost controls and stable raw material price, the Group was able to sustain healthy margins with a gross profit margin of 37.3% (2003: 35.8%) and a net profit margin of 26.7% (2003: 25.7%).

To share the fruitful results with our shareholders, the Board of Directors recommends the payment of a final dividend of HK14.0 cents per share (2003: HK12.0 cents per share) for the year ended 31 December 2004. In addition to the interim dividend of HK12.0 cents per share (2003: HK6.0 cents per share), the total dividend for the year will be HK26.0 cents per share (2003: HK18.0 cents per share), representing a payout ratio of 58.7%.

### CHINA MARKET: OVERVIEW

China is one of the world's largest furniture production bases. Its furniture industry enjoys rapid growth prompted by escalating demands from both overseas and the domestic markets. The China National Furniture Association forecasted that sales in the furniture market will reach 170 billion Renminbi by 2005 and 300 billion Renminbi by 2015, with growth rates between 12% and 15%. China is also one of the top five furniture exporters in the world. According to China Custom Statistics, China's export of furniture and parts reached US\$10.2 billion (equivalent to approximately 84.4 billion Renminbi) in 2004, representing an increase of 39.3% as compared with 2003. These figures affirmed the market potential of the China furniture market.

Despite the promising market outlook, the industry also faces challenges. In around April to May 2004, the Chinese Government stepped up its macroeconomic controls to restrain excessive investment in certain sectors. Nevertheless, the nation's GDP in 2004 still recorded a 9.5% growth to reach 1.365 trillion Renminbi. The demand for housing, especially luxurious residential units, has been picking up swiftly and so has the demand for medium to high-end furniture. In addition, more companies are attracted to invest in China as a result of its accession to the WTO, leading to a growth in the expatriate populations in major Chinese cities. The furniture market needs finer products of fashionable designs to meet the demand of this group of potential customers. Leveraging our extensive distribution network comprising over 810 outlets in 29 provinces and municipalities in China selling products of our famed "Royal", "Knight" and "Simplified" brand products, and boasting the ability to manufacture quality home furniture of sophisticated European designs together with impeccable business reputation, Chitaly is set to benefit from the booming economy and the growing demand of customers looking for stylish furniture with top-shelf features.



### STRATEGIC DEVELOPMENTS & PROSPECT

We operate in a highly competitive environment. To safeguard the Group's leading market position, besides producing the highest quality products, we also mount effective marketing campaigns to publicise our "Royal", "Knight" and "Simplified" brands to potential customers. We are one of the very first furniture manufacturers to appoint celebrity endorser to promote our brands and products. Complimented by Ms. Rosmund Kwan, well-known and loved celebrity in the Greater China Region, Chitaly's brands have been firmly stamped in the minds of consumers nationwide. The Group is pleased to announce that Ms. Kwan has signed another 3-year endorsement contract with the Group. We are confident of expanding the Group's brand names even further into new potential markets.

The success of our franchisees is the cornerstone of Chitaly's growth. It is our goal to continue to foster the growth of our franchisees. As a step to strengthen our brand and our corporate image, we have started retrieving our franchise rights and forging partnership with existing franchisees in certain major cities in China such as Shanghai and Shenzhen. This is not an adjustment of our franchisee model but an enhancement of the franchisee system. The move is merely to rid the weaknesses in the franchisee system, not to take business from the franchisees. We plan to build flagship stores to enhance the Group's overall brand image, and the sophisticated style of the stores can serve as an important reference for franchisees in neighbouring cities. Being able to secure maximum brand exposure in major Chinese cities will also help the Group attract additional businesses from overseas.

To further expand our presence, we will continue to strengthen our distribution network in the country, which will enable the Group to grasp arising business opportunities. The Group targets at having a total of 1,000 specialty outlets in China by the end of 2005. In view of the favourable market outlook and our expansion blueprint, we are planning to inject approximately HK\$100 million in the coming 5 years to expand the monthly production capacity by 150%. The investment will sharpen the Group's competitive edge, allows us to meet the escalating demands for quality home furniture with high efficiency and flexibility.



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Over the years, the Group has had negotiations with various overseas business partners about different forms of partnership. We will keep identifying synergistic collaboration and we are delighted to announce that the Group has introduced our effective franchise system to Indonesia, Philippines and United Arab Emirates, and it has also forged a licensing agreement with a distributor in Spain. Among our six furniture series, "Simplified" under the award winning "Simplified" brand, received overwhelming response from our overseas partners. Its elegant European contemporary design and unique craftsmanship in applying the advanced material, veneer, allow the Group to capture potential market share of the overseas home furniture markets, particularly the younger generation market.

In the pursuit of a sustainable gross profit margin, we will continue to look for additional product lines to expand the scope of our core products. In addition to panel furniture, new product lines we plan to develop include fabrics, sofas, floor and wall coverings, accessories and others, to name but a few. However, we do not intend to start from scratch the development of new product lines. We may consider pursuing such development in collaboration with other companies or partners when the right opportunities arise. Also, the Group may consider acquiring other companies to tap these new product markets.

In addition to general business development, during the year, the Group entered into a placing agreement for the placement of 43,000,000 shares at HK\$4.45 per share on 13 October 2004. The placees were mainly well known global institutional investors. We are delighted that additional institutional investors have joined us as our shareholders. It is proof of our commitment to expanding our shareholder base, and the strong confidence the investor community has in our business direction and future development.

Committed to delivering superb product designs and quality and armed with a sound brand building philosophy, efficient production capabilities and an extensive distribution network, the Group will be able to seize the many growth opportunities ahead and pave the way for the sustained growth in the future.

### APPRECIATION

Last but not least, on behalf of the Board of Directors, I would like to extend my sincere gratitude to our business associates, distributors, customers and shareholders for their support throughout the year. I would also like to thank our dedicated management team and committed staff for their hard work and continuous efforts over the years. Their excellent work has contributed significantly to our remarkable results and further cemented the Group's foundation for extending our presence in China as well as in other potential markets.

**Tse Kam Pang**

*Chairman & Chief Executive Officer*

Hong Kong

8 April 2005