



DIVIDENDS

The Board of Directors recommends a payment of a final dividend of HK14.0 cents per share for the year ended 31 December 2004. Together with the interim dividend of HK12.0 cents per share, the total dividend for the year ended 31 December 2004 is HK26.0 cents per share. Subject to the approval of the shareholders at the forthcoming Annual General Meeting ("AGM"), the final dividend will be distributed on or about 12 May 2005 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 6 May 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

Network Extension

During the year, Chitaly continued to expand its presence in China. Leveraging the Group's extensive distribution network comprising over 810 outlets in 29 provinces and municipalities in China selling products of its famed "Royal", "Knight" and "Simplified" brand products, and effective marketing and brand building campaigns, Chitaly further strengthened its foothold and reputation in the medium to high-end home furniture markets in China. The number of specialty outlets increased by more than one-third over that of last year. As the Group has already established strong presence in major cities in China, most of the new stores are strategically located in 2nd-tier cities. The diversified network provides a solid platform for the Group to market its wide range of medium to high-end modern-style home furniture to the more affluent Chinese population.

Exquisite Design Capability

The Group marketed six series of home furniture, namely "Light Walnut", "Ebony", "Black Walnut", "Glossy", "Light Oak" and "Simplified" under the award-winning brand names, "Royal", "Knight" and "Simplified". Leveraging the Group's contemporary product design and development team with over 50 professionals, two new product series - "Light Oak" and "Simplified" were launched during the year 2004.

The modern designs and superior quality of the Group's products had won for it a number of prestigious acclaims including the "Gold Award of the bedroom series" in the 12th International Famous Furniture Fair (Dongguan), "Top Brand in Customer Satisfaction in the PRC Market" presented by *People's Daily* and the "Top Ten Renowned Furniture Brands" named by the *China Association for Quality Supervision and Management* in China. These awards demonstrated the Group's continuous efforts in developing products of the best designs and quality as well as its commitment to providing the best service to its customers. Among the three accreditations, the Gold Award was presented to the Group's new brand, "Simplified". The award not only recognised the dedication of the Group's product design and development team, but also strengthened Chitaly's confidence in developing new products under the "Simplified" brand.



MANAGEMENT DISCUSSION AND ANALYSIS

Distinguished Brand Building Strategies

On top of establishing a comprehensive distribution network in China and maintaining excellent design and product quality, the Group also injected resources into building its brands. Chitaly appointed celebrity Ms Rosmund Kwan as the Group's spokesperson in 2003. The Group's furniture brands are promoted via the printed media, and on billboards and television featuring Ms. Kwan. In addition, Chitaly has actively participated in various international furniture exhibitions in China, including the 12th International Famous Furniture Fair (Dongguan), which were well-known international show for the furniture industry in China. These exhibitions can serve as an efficient platform for the Group to promote its brands to potential franchisees and customers. These marketing campaigns helped the Group to extend its brand recognition and market presence, and also strengthened its leading position in the medium to high-end home furniture market in China.

Investment in Production Facility

In view of the escalating demand for quality home furniture in China, the Group expanded its production facility, adding to it a new factory in Dongguan in mid 2004. Including the production plant in Guangzhou, the Group's production facilities had a total production floor area of 110,000 sq.m. and a maximum monthly production capacity of 14,000 sets of furniture. Furthermore, the Group further invested in expanding its logistics capabilities by adding a new three-storey facility, a new storage and a distribution terminal adjacent to its Guangzhou factory and in Tianjin. The investment in new facility has further cemented the Group's foundation for future growth in the quality home furniture industry.

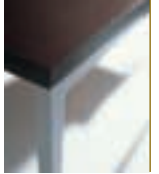
Other Revenue

During the year, the Group's other revenues represented service fee resulted from the introduction of customers (the Group's franchisees) to the manufacturers of non-wooden furniture, including sofa, mattress, table, cushion, lamps and other decorations of the wooden furniture. By providing such services, the Group can highlight its position as a close business partner of its franchisees thereby fortify the relationship with them, and also ensure all the specialty outlets share the same uniform image. The services were well evidenced by the additional income, amounted to HK\$33 million.

PROSPECTS

Looking ahead, the favourable market condition in the China home furniture market will remain as the Group's major growth driver. Chitaly will continue to strengthen its presence in the country, which will enable it to grasp arising business opportunities. The Group targets at having a total of 1,000 specialty outlets in China by the end of 2005.

To further boost the market penetration of its three prestigious brands, the Group will inject resources into marketing campaigns to publicise them to potential customers. Chitaly is also pleased to announce that Ms. Kwan has signed another three-year endorsement contract with the Group. The Group is confident of expanding its brand names into new potential markets.



As for core business development, to strengthen Chitaly's brand and corporate image, the Group has started retrieving its franchise rights and forging partnership with existing franchisees in certain major cities in China such as Shanghai and Shenzhen. The Group intended to build flagship stores to enhance its 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 business from overseas.

Apart from the development in the Group's core market, Chitaly is delighted to announce that it has introduced its effective franchise system to Indonesia, Philippines and United Arab Emirates, and it has also signed a licensing agreement with a distributor in Spain. The Group believes that those new markets will serve as another growth driver for the Group's future development.

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.

The above developments presented many growth opportunities for Chitaly. Leveraging the Group's market driven products, superior design capabilities, high brand reputation, quality and efficient products and an extensive distribution network, the Group is poised for future success.