



CHITALY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS

For the year ended 31 December 2002

RESULTS

The Board of Directors of Chitaly Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2002 together with the comparative figures for the year ended 31 December 2001 as follows:

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
TURNOVER	2	207,020	164,758
Cost of sales		(133,847)	(101,892)
Gross profit		73,173	62,866
Other revenue	2	5,936	669
Selling and distribution costs		(6,818)	(5,345)
Administrative expenses		(20,529)	(19,805)
Other operating expenses		(428)	(668)
PROFIT FROM OPERATING ACTIVITIES	3	51,334	37,717
Finance costs		(82)	(102)
PROFIT BEFORE TAX		51,252	37,615
Tax	4	(6,738)	(5,138)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>44,514</u>	<u>32,477</u>
DIVIDENDS	5		
Special		10,000	18,600
Interim		5,750	–
Proposed final		18,616	–
		<u>34,366</u>	<u>18,600</u>
EARNINGS PER SHARE			
Basic	6	<u>20.69 cents</u>	<u>17.12 cents</u>

1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 8 November 2001 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a reorganisation scheme to rationalise the structure of the Group, in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Chitaly (BVI) Limited ("Chitaly BVI"), the then holding company of the subsidiaries, and became the holding company of the Group on 15 December 2001 (the "Group Reorganisation"). Further details of the Group Reorganisation and of the subsidiaries acquired pursuant thereto are also set out in notes 21, 22 and 23, to the financial statements and in the Company's prospectus dated 2 May 2002.

2. TURNOVER, OTHER REVENUE AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold during the year, after allowances for returns and trade discounts, and after eliminations of all significant intra-Group transactions.

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	207,020	164,758
Bank interest income	629	169
Service fee income	4,700	–
Others	607	500
Other revenue	5,936	669
Revenue	212,956	165,427

Segment information is required by SSAP26 "Segment reporting" to be presented by way of two segment formats: (i) on a primary segment reporting basis, which for the Group is determined to be by business segment; and (ii) on a secondary segment reporting basis, where for the Group is determined to be by geographical segment.

Sale of home furniture is the only major business segment of the Group. Accordingly no further business segment information is provided.

In determining the Group's geographical segments, revenues 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:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Sales to the PRC	204,465	160,854
Sales to elsewhere in Asia	2,373	3,372
Sales to Australia	–	158
Sales to North America	182	286
Sales to Europe	–	88
	207,020	164,758

	Segment assets		Capital expenditure	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Other segment information	125,425	86,905	9,257	6,874
The PRC	69,168	11,950	27	57
Hong Kong	194,593	98,855	9,284	6,931

3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of goods sold	133,847	101,892
Bad debts written off	563	–
Provision for inventory obsolescence	–	210
Auditors' remuneration	1,000	350
Depreciation of owned assets	5,286	4,016
Loss on disposal of fixed assets	19	238
Research and development cost	1,046	195
Operating lease rentals on buildings	134	156
Staff costs (excluding directors' remuneration)		
Wages and salaries	13,826	10,929
Other benefits in kind	455	501
Pension contributions	365	188
Less: Forfeited contributions	–	–
Net pension contributions	<u>365</u>	<u>188</u>
	<u>14,646</u>	<u>11,618</u>
Exchange losses, net	367	–
Interest income	(629)	(169)
Service income	<u>(4,700)</u>	<u>–</u>

The Group's profit from operating activities represents sales of home furniture in the PRC.

4. TAX

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Hong Kong	–	–
Macao	3,470	1,995
PRC	<u>3,268</u>	<u>3,143</u>
Tax charge for the year	<u>6,738</u>	<u>5,138</u>

Hong Kong profits tax has not been provided for as the Group did not generate any assessable profits in Hong Kong during the year. Macao income tax has been calculated at the statutory tax rate of 15.75% on the estimated assessable profits for the year. Provision for tax on the estimated assessable profits of certain subsidiaries arising from their operations in the PRC has been calculated at the rate of PRC corporate income tax during the year, which is currently 33%.

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax liabilities in respect of 2002 and 2001.

5. DIVIDENDS

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Special dividend	10,000	18,600
Interim dividend – HK2.5 cents (2001: Nil) per ordinary share	5,750	–
Proposed final dividend – HK8.0 cents (2001: Nil) per ordinary share	<u>18,616</u>	<u>–</u>
	<u>34,366</u>	<u>18,600</u>

At a board meeting held on 28 April 2003 the directors declared a final dividend of HK8.0 cents per ordinary share. This proposed dividend was not reflected as a dividend payable in these accounts, but was incorporated as an appropriation of retained profits within the capital and reserves section of the balance sheet for the year ended 31 December 2002.

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 year of HK\$44,514,000 (2001: HK\$32,477,000) and the weighted average of 215,113,000 (2001: 189,750,000) ordinary shares.

There were no diluted earnings per share for the years ended 31 December 2002 and 2001 as the share options had no dilutive effects throughout these years.

FINANCIAL RESULTS

The Group reported record levels of turnover and profits for the year under review. Turnover rose 26% to HK\$207.0 million compared with HK\$164.8 million in 2001. Net profit attributable to shareholders amounted to HK\$44.5 million, representing an increase of 37% over HK\$32.5 million in 2001. During the year, the Group undertook stringent cost control measures, improving net profit margin in 2002 to 21.5% against 19.7% in 2001.

BUSINESS REVIEW

The Group designs, manufactures and sells a wide range of home furniture under the registered brand names of “Royal” and “Knight”, targeting the medium to high-end home furniture market in China. To catch up with rising living standards and consumer expectation on quality, the Group has remained its commitment to improve its design concepts and capability. The Group’s product development team consisted of experienced designers who work closely with the sales and marketing team to keep abreast of the latest market trends. During the year, the Group launched a new furniture series, the “Black Walnut”, which was well accepted by the market. Besides “Black Walnut”, the Group also had two other series on sale in market which were “Knight (Youngster)” and “Ebony”.

While developing new products is important in maintaining the Group’s leading market position, efforts in obtaining product design patents to prevent piracy also serves to protect the Group’s intellectual rights, allowing it to establish a premium brand status in the industry. Responding to the growing awareness of environmental protection among consumers and also to stay globally competitive, the Group will continue to develop new furniture pieces with environmentally friendly and inflammable features. To increase market penetration, the Group has adopted an efficient franchise system to distribute its products in China. It is the first mainland furniture manufacturer to distribute products through a franchise system in the country. The Group will review the management experience, industry know-how and financial status of potential franchisees before they are granted the rights to open specialty outlets under the brands “Royal Furniture” and “Knight Furniture”. The franchise operation has been successful in allowing the Group to expand its distribution network faster and at lower risk and costs.

Geographically, sales to the Central and Eastern regions in China recorded the fastest growth of 58% and 54% respectively in 2002. The two regions are now the most affluent areas in China and the provinces therein with fast growing rates include Jiangsu, Zhejiang, Shandong, Hubei, Hunan and Jiangxi. To reach the sparsely located population in the country, the Group proactively participated in a number of major international exhibitions and trade shows during the year to increase its exposure to local distributors. It also held seminars for potential distributors in new markets in different provinces to promote its wide range of products and strengths. These marketing efforts have proven successful by the increase of 148 specialty outlets during the year. As at 31 December 2002, the Group had 370 specialty outlets in China.

Besides expanding its distribution network, the Group has also moved forward to enhance its production efficiencies and cost effectiveness. The increasing orders received has prompted it to commence the operation of a new production facility in Guangzhou, in October 2002. The new facility with a total floor area of 8,000 sq.m. enabled the Group to increase its overall production volume by 20% with a maximal production capacity of 7,500 sets of furniture per month. Realizing that the brand names are its important assets, the Group is committed to maintaining and upgrading the quality of its products. By adopting the stringent quality control measures, the Group is proud to maintain producing quality products, bringing it closer to the goal of producing perfect products. With these improvements, the Group has been able to attain optimal cost efficiency and heighten net profit margins.

OUTLOOK

With the funds raised from the listing, the Group will continue to strategically expand its distribution network in China and strengthen its product development capabilities. Despite the uncertainties assailing the global economy, with the continuous growth of consumer spending and the property sector in China, the Group remains highly confident of the outlook of the furniture industry in the country.

According to the Ministry of Construction, China will have a total urban population of 630 million and an urbanization rate of 45% by 2010. As the development of commercial and residential buildings speeds up in major cities in China in the next few years, the demands for furniture and other related accessories are also expected to escalate.

On the other hand, the Group's competitive edge is further boosted by the newly established facility in Guangzhou. Its production now enjoys higher flexibility and scalability. With strong financial support and profound experience, the Group will be able to increase its production capacity to cater for the fast growing market demands. The Group will also continue to implement stringent cost control measures to further improve its profitability.

In March this year, the Group participated in the 2003 China International Furniture Fair (Guangzhou) and the 2003 China (Dongguan) International Famous Furniture Exhibition. The Group also announced the appointment of celebrity Ms Rosmund Kwan as its spokesperson. The Group believes the marketing strategy will effectively upgrade its corporate image and stimulate sales at the same time.

The encouraging sales performance in the first quarter of 2003 and the positive customer responses after the Guangzhou trade fair have led the Group to believe that it will continue to experience dynamic growth. The Group targets to expand its distribution network to 1,000 specialty outlets by the end of 2005.

To expand its operations and enhance management, the Group will cautiously consider collaboration with overseas business partners. The Group will only pursue strategic transactions that will create synergies in the Group's operations and facilitate its achievement of business objectives.

Moving forward, armed with extensive experience, innovative products and aggressive marketing plans, the Group is confident that it will successfully execute its development strategies to capture emerging opportunities in the furniture market in China.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

Upon the listing of the Company's shares on the Stock Exchange on 15 May 2002, the net proceeds were approximately HK\$32 million. As at 31 December 2002, HK\$2 million, HK\$7 million and HK\$5 million were utilised for the construction of a new factory building, 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.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a strong financial position, with cash and bank balances of HK\$87.8 million as at 31 December 2002 (2001:HK\$11.8 million). Other than the proceeds from the initial public offering, 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 31 December 2002, the Group had no contingent liabilities and bank borrowings. As at the same date, the gearing ratio (Total borrowings/net assets) was 0.46. (2001: 1.18)

Approximately 65% of the Group's cash is denominated in Hong Kong Dollars. Therefore, the exposure to exchange fluctuation is minimal.

The liquidity of the Group was evidenced by the current ratio (current assets/current liabilities) of 1.9 times, which improved from the 1.0 times applicable at the end of 2001. As at 31 December 2002, the net current assets was HK\$57,360,000. (2001: 11,000)

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2002 was 1,000 (2001: 790).

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 31 December 2002, there were outstanding share options 7.3 million.

DIVIDENDS

The Board of Directors recommends a payment of a final dividend of HK8.0 cents per share for the year ended 31 December 2002. Together with the interim dividend of HK2.5 cents per share, the total dividend for the year ended 31 December 2002 is HK10.5 cents per share. Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the final dividend will be distributed on or about 30 May 2003 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 23 May 2003.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 20 May 2003 to 23 May 2003, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch registrar and transfer Office in Hong Kong, Tengis Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road., Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 19 May 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Board, the Group has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") throughout the accounting period covered by the annual report of the Company, except that the independent non-executive directors of the Group are subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2002, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE WEBSITE

A detailed results announcement containing all the information required by paragraph 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange of the Hong Kong Limited's website in due course.

By Order of the Board
Tse Kam Pang
Chairman

Hong Kong, 28 April 2003

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the “Meeting”) of Chitaly Holdings Limited (the “Company”) will be held at Tien Room, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Friday, 23rd May 2003 at 10:30 a.m. for the following purposes:

1. To receive and adopt the audited financial statements and the reports of the directors (the “Directors”) and auditors for the year ended 31st December, 2002;
2. To declare a final dividend for the year ended 31st December, 2002;
3. To re-elect Directors and authorize the board of Directors (the “Board”) to fix the Directors’ remuneration; and
4. To re-appoint auditors of the Company and authorize the Board to fix their remuneration.
5. To consider and, if thought fit, pass the following resolution as Ordinary Resolution:-

ORDINARY RESOLUTION

“THAT:-

- (a) subject to paragraph (c) below and pursuant to the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorize the Directors during the Relevant Period (as defined below) to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined below); (ii) an issue of shares as scrip dividends pursuant to the articles of association of the Company from time to time; (iii) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to employees of the Company and/or any of its subsidiaries of shares or rights of the Company; or (iv) an issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any of the warrants or securities of the Company, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:-
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
 - (iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the Company in the general meeting.

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to the holders of shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company).”

By Order of the Board of
CHITALY HOLDINGS LIMITED
Chan Wing Kit
Company Secretary

Hong Kong, 28th April 2003

Head office and principal place of business:

Units 2 & 3, 18/F
Metropole Square
2 On Yu Street
Shatin
New Territories

Notes:

- (1) A member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.
- (2) To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority must be deposited with the Company's branch registrars and registration office in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding this Meeting or any adjournment thereof.
- (3) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (4) The register of members will be closed from Tuesday, 20th May 2003 to Friday, 23rd May 2003 (both dates inclusive) during which period no transfer of shares can be registered. In order to qualify for the rights to attend and vote Meeting and for the final dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch registrar and transfer office in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. Monday, 19th May 2003.
- (5) Concerning the ordinary resolution of the above notice, the approval is being sought from members as a general mandate in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Directors have no immediate plans to issue any new shares of the Company.

Please also refer to the published version of this announcement in The Standard dated on 29-4-2003.