

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to announce our annual results following the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited in May 2002. During the year, the Group has recorded remarkable growth in our business with turnover and net profit increased 26% and 37% respectively. We are highly encouraged to be able to set record levels of turnover and profits. We are confident that the listing status will continue to serve as a strong growth impetus for the Group, allowing us to ride on the escalating trend of the home furniture business in China.

China is one of the biggest furniture production countries in the world with over 5,000 manufacturers. According to market statistics, the turnover of China's furniture industry was USD19.95 billion in 2002 with an increase of 17.8% over 2001. At the same time, China has become the second largest furniture export country in the world with export volume increased 36% to USD5.42 billion in 2002. Currently, medium to high-end furniture contribute about 10% to 20% of sales to the national furniture market. Based on our past business performance, our market share in this particular segment was approximately 1%, meaning there is huge room for expansion for the Group. With the country going through rapid economic development in recent years, prompting the allocation of more land for development of commercial and residential property, we are looking at tremendous growth in market demand for household furniture, home furnishing as well as home decorative accessories.

Having successfully established a strong reputation in the medium to high-end furniture market in China, we remain committed to producing top quality fashionable furniture under the Group's brand names of "Royal" and "Knight". We are excited to report that with our strong market position, we have been able to sustain our leading position in the medium to high-end segment and achieve relatively higher margins than our competitors. To maintain our competitive edge, we will also continue to patent our designs to protect our intellectual rights and uphold our product image. At the same time, we have started to adopt a series of aggressive marketing strategies to increase our market share and competitiveness. During the year, we participated in major furniture exhibitions in China and held seminars to promote our products and extend our reach to potential distributors. As a result, we have added new distributors and extended our distribution network which now covers 29 provinces in China.

Besides enhancing our distribution network, the prosperity of the furniture industry in China has urged us to enlarge our production capacity. To cope with growing demands, we have spent approximately HK\$9 million from the funds raised during our IPO last year to establish a new production facility in Guangzhou in October 2002. This investment has not only increased our annual production volume by 20% but also facilitated the achievement of optimal production efficiencies and quality control in our production. Through increasing our production capacities cautiously, we are poised to capture any rising opportunities as market demands grow.

Looking ahead, I believe the winning of the right to host the Olympic Games 2008 by Beijing and World Expo 2010 by Shanghai will bolster the development of both the construction and furniture industry in China in the coming years. Having a huge population reaching 1.3 billion and a steady annual GDP growth of 7%, continuous growth of the domestic furniture market is expected.

I am also pleased to announce that we have introduced reputable institutional investor, Value Partners Ltd. ("Value Partners") in March 2003. Our existing substantial shareholders achieved this by placing 8 million shares to Value Partners, whereas, an additional 2 million shares were placed to an independent third party at the same period. The introduction of strategic investor demonstrates the recognition and strong support from the investment community as well as their confidence on our business prospects. Despite our relatively small market capitalization at the moment, it is encouraging to achieve the goal in attracting strategic investor without diluting minority shareholders' interest. It is our first step towards enriching our shareholder base.

With strategic marketing plans, promising results and innovative product development, we are optimistic about our future in China's furniture market. We are committed to attaining better performance and enhancing future returns for our shareholders.

APPRECIATION

First of all, I would like to thank our business associates, distributors and customers for their loyalty and support to Chitaly. I would also like to thank our management team and our staff for their significant contributions during the year. Last but not least, my heartfelt appreciation also goes to all our fellow shareholders and institutional investors for their continued support and confidence in the Group.

Tse Kam Pang

Chairman

Hong Kong, 28 April 2003