

## CHAIRMAN'S STATEMENT

Dear Shareholders,

With our reputation and strong foothold in the medium to high-end home furniture markets in China, I am pleased to announce that the Group has weathered the numerous challenges in 2003. The overall market sentiment and consumer confidence were inevitably clouded by the war in Iraq and the outbreak of SARS in Hong Kong and China during the year under review. However, thanks to our innovative and stylish design, persistent and customer-oriented marketing campaigns and effective cost control systems, we have excelled and set a new record in both of our business performance and financial results.

China is one of the world's largest furniture production bases and ranks fourth as an exporter of furniture. On top of the strong demand from overseas markets, domestic consumption is on the increase due to the boom in the property market driven by the continuous rise in the standard of living in China. In 2003, the growth of GDP in China reached 9.1%, representing the best performance since 1997. Per capita GDP amounted to US\$1,090 — a significant watershed as economists anticipate an escalating rate of consumption after crossing the threshold of US\$1,000 in per capita GDP.

Riding on the booming economy, the Group has captured the opportunities in the China market and paved the way for achieving another milestone. With an eye on the promising growth in the demand for medium to high-end home furniture, the Group has been tapping the China market since 1997. In less than seven years, the Group has become a market leader renowned for the design and manufacturing of quality home furniture targeting at top tier customers.

Capitalising on the ever-increasing demand for quality home furniture, the Group is committed to developing and introducing creative and sophisticated furniture, blending European style with a unique Chinese touch. Our professional product development team of over 50 staff is one of the critical factors contributing to the Group's success. A total of four product lines, all manufactured under stringent quality control, are currently enjoying great popularity in the market.

Our top quality fashionable furniture collections are marketed under the Group's brand names "Royal" and "Knight". We are the first major furniture manufacturer to distribute products through the franchise system in China. In the year ended 31 December 2003, the Group set up a comprehensive distribution network with over 600 outlets under the trademark "Royal Furniture" or "Knight Furniture", spanning 29 provinces in China. Our practice is to grant exclusive distribution rights for each brand to one distributor in each city. The stringent selection criteria and the close relationship built with the franchisees had contributed to exciting business growth in the past years.

On top of excellence in design and product quality, and our comprehensive distribution network in China, the Group is striving to step up our promotional campaigns to enhance our brand names. Building on the immediate benefits of appointing Ms Rosmund Kwan as our spokesperson, participating in various international furniture exhibitions in China, and the implementation of effective marketing campaigns, we have reaffirmed our leading position in the medium to high-end home furniture market in China.

We are pleased to note that not only have our business operations achieved significant recognition during the year under review, but our solid business model together with our strong financial position have also attracted global institutional investors including Value Partners Ltd. and Baring Asset Management (Asia) Limited to become our shareholders. The introduction of these reputable strategic investors further testifies to their confidence in our transparent management and promising business prospects.

Looking ahead, the robust economic growth in China, expected to reach 7-8% in 2004, coupled with major forthcoming events such as the 2008 Olympic Games in Beijing and the 2010 World Expo in Shanghai, will definitely present us with immense business opportunities in the years to come.

### **APPRECIATION**

Despite the difficult market situation in 2003, we are able to achieve significant growth. Therefore, I would like to take this opportunity to express my sincere thanks to our business associates, distributors, customers and shareholders for their continued support to Chitaly. I would also like to thank our dedicated management team and our staff for their contributions over the years. With your valuable support, Chitaly is well positioned to grow and prosper well into the future.

**Tse Kam Pang**

*Chairman*

Hong Kong, 6 April 2004