

Chairman's Statement

Dear Shareholders,

2006 was a tough year for the furniture industry in China. The prices of major raw material such as wooden board and paint increased substantially. Amid keen competition, the industry found it difficult to shift the high cost pressure to their consumers. All these factors have dampened our gross profit margin. Despite the unfavorable business environment, we made a healthy growth on turnover.

In spite of a competitive market, Chitaly, as a branded furniture provider, has managed to retain its leading position and tap all opportunities to expand its market share. Turnover went up substantially by 18% to HK\$489 million this year. Net profit was down by 55 million to HK\$23 million. The drop in profit was mainly due to the soaring costs of raw materials which made the gross profit margin of wholesales business decreased from 34% to 21% and the increase in selling expenses and administrative expenses.

As compared to the profit of HK\$6 million for the first half year, an additional profit of HK\$17 million was recorded for the second half of 2006. Perceiving a favorable turnaround in market situation for the second half of the year, we raised the prices of our certain products from 6-10% in November 2006. This was the first time, in the past ten years, that there was an increase in the prices of furniture in the market. Up to now, we have noted no unfavourable impact on our turnover after the price increase. Since the prices were raised in November 2006, the effect of price increase will be fully reflected in 2007.

In 2006, in the wake of the pressure from soaring raw material prices, we further enhance the internal restructuring to recover our profitability. Through the internal restructuring, the design department becomes more effective and more cost conscious during the design process. Without compromise of quality, our research team will continue to find substitution of raw materials. The internal restructuring covers all major departments of the Group and increases the efficiency of the operation and hence the profitability.

Our brand "Royal Furniture" is one of our important assets and also one of our keys to the success of Chitaly. We have seen how powerful our brand is, especially in the highly competitive market of 2006. Our commitment to maintaining and refreshing our brand is beyond doubt. By appointing a "Ms. Rosmund Kwan", a Hong Kong Movie Star, as our product advocate for the past few years, we have succeeded in demonstrating to our consumers that "Royal Furniture" is a trendy and stylish brand. In mid of 2006, we decided to add new glory to our brand and corporate image. After over nine months' effort, we had the honor to be appointed by Beijing Organizing Committee for the Games of the XXIX Olympiad ("BOCOG") as the official sole supplier of home furniture to Beijing 2008 Olympic Games while Staples was appointed as the sole supplier of office furniture. As the exclusive home furniture supplier, Chitaly will supply home furniture to BOCOG, including home furniture for the athletes and officials living in the Olympic Village during the games. We believe the BOCOG contract once it is ordered, will be the largest single order ever in China. BOCOG has strict requirement on Green Environment Protection Standards that are above current world standards for furniture products. Chitaly will also provide professional technical staff and after-sale services to ensure its service quality. Serving the Olympic Games will reinforce Chitaly's green and healthy image and build itself into an international brand in the home furniture industry.

Chitaly has been operating retail outlets for over two years. Now we are having over 20 outlets well distributed in Beijing, Shanghai and Shenzhen. In November 2005, our five-storey flagship store in Beijing was opened, displaying the real Chitaly to the nation with its brilliant top product offerings. This flagship store in the capital city of China is for the image building purpose rather than profit making purpose. Comparing with 2005, the turnover from retail operation increased from HK\$43 million to HK\$79 million. Without taking the costs of operating the Beijing flagship store into account, our retailing business has made a profit of HK\$1.9 million this year.

Currently we have over 1,000 franchise outlets widely spread in different part of China. We believe that our franchise network is of the greatest penetration in the furniture industry in China. Our sales teams have frequent communication with the franchisees. We committed ourselves to providing quality services to our franchisees to ensure they are able to provide superb services to the end users. In 2007, we will further strengthen our services to franchisees to guarantee our franchisee network expanding in quality and according to our geographical plan.

The acquisition of 71% interest of Signature Industry Limited, a manufacturer of sofa, was completed in January 2007. The acquisition will further enhance our products range in living room series and further ensure the supply and quality of sofa products. Sofa is a major piece of furniture in living room and has a higher rate of replacement than other furniture like bed fame and wardrobe. Chitaly will introduce international management standard such as corporate governance and professional cash flow management to the sofa factory and operate it in a professional manner.

The furniture market in China is competitive due to its low entry barrier. Many industry players were unable to survive last year. However, nowadays, we believe the competition is not solely on price but also on the reputation of the brand, the design and the quality of products. Facing the hike in raw materials prices, we will keep abreast of the market and if possible, further transfer certain cost pressure to the end users. Internal administrative restructuring will be implemented to keep the administrative expenses at current level. Also, we are now preparing the supply of home furniture to Olympic Games 2008. Our new production site is nearly completed and ready to undertake orders. Serving the Beijing 2008 Olympic Games will further reinforce the image of "Royal Furniture", and the effect of which will grow as we are approaching year 2008 and will last for years thereafter. We will grab this opportunity to make known ourselves to more people in China. We are confident about 2007 and we are working to lift the barrier of entry in the China furniture market.

APPRECIATION

I would like to take this opportunity to express my sincere thanks to our franchisees, business associates, customers, fellow shareholders and institutional shareholders for their continued support and confidence in the Group. I would also like to thank our committed management team and our staff for their contribution for the year.

Tse Kam Pang

Chairman

Hong Kong, 16 April 2007