

CHAIRMAN'S STATEMENT

Dear Shareholders,

Compared with the previous years, 2005 was a challenging year for the furniture industry in China. The Chinese Government put forward the macroeconomic measures in the first half of 2005 to combat the overheated speculation, posing adverse effects on the market sentiment, especially between April and June. The effect of the government measure became apparent in the second half of the year hurting our results. Sales were up about by HK\$10 million to HK\$413.3 million this year. Net profit was HK\$78.2 million (2004:HK\$108.0 million). The drop in profit was a result of several main factors including higher manufacturing costs, higher advertising and promotional spending and increase in salaries and allowances.

Despite the current year's set backs, we will continue to concentrate on the two critical aspects of our business fundamental to Chitaly's success.

We are committed to building the "Royal" brand. We were one of the pioneers in the China furniture industry to appoint celebrity as spokesperson to conduct nationwide promotions. The past year was the third year of featuring Ms. Rosmund Kwan as our official spokesperson on television and in the printed media. The images of our "Royal", "Knight" and "Simplified" brands are becoming more deeply planted among the public. This has become a key edge that distinguishes us from the thousands of players in the market and has secured a strong customer base for the Group. We believe we are among the top furniture brands in China.

We are committed to our franchisees and our franchisee system. Our business potential and the first-mover advantages in the China market have strong attraction to franchisees, and for us leveraging franchisees' investment and management of outlets has allowed us to attain rapid network expansion. This system spared us from having to supervise the daily operation of hundreds of outlets, hence, we can focus on strategic planning, R&D and manufacture to speed up business growth. We believe our furniture distribution network is amongst the largest in China, with the number of our outlets reaching above 1,000 this year. Thanks to the extensive distribution network, the negative impact brought by the macroeconomic measures in Eastern China was moderated by the operations in other regions, which helped much to minimize the loss induced.

The tough market environment in 2005 sparked consolidation of the industry and presented us the opportunity to strengthen our operational foundation.

Looking ahead, the operational environment will continue to be challenging. The minimum wages in the area where the Group's production takes place is expected to increase by 20% in year 2006, which may put pressure on wages of the Group. In addition, to meet consumers' growing demand for choices, the Group sees the need to enrich product models. The costs involved and price pressure on raw materials are likely to add to pressure on production costs. The difficult operational environment in 2005 has accelerated the consolidation of the China furniture industry. Smaller industry players and inferior products are under pressure and many of them will be ousted from the market eventually. Demonstrating resilience in the tough operating environment, we believe we have a solid foundation on which to enlarge our market share and further strengthen our leading position. On top of developing quality products with unique designs and proliferating our distribution network, we are reinforcing our commitment in brand building and marketing through various channels to obtain more exposure and recognition in the market. Construction of phase one of the new plant in Guangzhou was also completed in the first quarter of 2006, which can boost our total production capacity by 20%. We believe that with a solid foundation, we are well positioned to capture any emerging opportunities and to enjoy fruitful returns after the market consolidation.

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In the long run, we hold a prudently optimistic view on the furniture industry in China. According to an industry report published by China Investment Consulting in March 2006, every year infrastructure projects in China cover around 1.2 billion square meters, in which 500 million square meters are for construction of residential properties. If each household on average occupies 100 square meters, the residential properties are enough for five million households, representing the great potential of the furniture industry. Benefited from the growing GDP in China, more people become affluent and pursue improvement in living standard. The population of the middle class in China is flourishing, posing strong demand for quality furniture in the medium to high-end market. These favourable factors project an encouraging background for our business growth and we are confident of our prospects in future.

APPRECIATION

On behalf of the Board, I would like to thank all our shareholders, business partners and customers for their continuous support during the year. I would also like to extend my gratitude to the management team and staff for their commitment and contribution to the Group. Their dedicated attitude has contributed to our satisfactory results in the difficult environment and will facilitate our prosperous development in future.

Tse Kam Pang

Chairman

Hong Kong, 26 April 2006