

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's turnover increased by approximately 25% to 95 million as compared to the corresponding period last year. The growth in turnover is mainly due to the Group's continued success in marketing and product development and its determination and capability to produce trendy and fashionable furniture at competitive prices. Our Group's new products line "Black Walnut" series is a typical example to prove our Group's effort and success. The new product line "Black Walnut" launched at the beginning of 2002 and was welcomed by the market. The sales of this product line amounted to nearly 60% of the Group's turnover for the six months ended 30th June 2002.

The demand for certain traditional products, such as our beech colour series which was launched in 1998 decrease because of the launching of our new product. Therefore, a discount was offered for these traditional products to maintain their competitiveness in the market. This explains why the gross profit margin drops from 38.8% to 36.3% for the year ended 30th June 2002.

In addition, the increase in turnover is also attributable to the further expansion of the Group's distribution network and customer base. During the interim period, approximately 20 new distributors commenced their business with our Group and approximately 40 new specialty outlets were opened in the PRC.

The Group has been very successful in adopting a tight credit policy, and this is evidenced by its debtors turnover of only 13 days during the period.

To cope with the increasing demand for our products, a new factory is under construction and the new factory will operate in near future.