

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The Board of Directors recommends a payment of a final dividend of HK8.0 cents per share for the year ended 31 December 2002. Together with the interim dividend of HK2.5 cents per share, the total dividend for the year ended 31 December 2002 is HK10.5 cents per share.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group reported record levels of turnover and profits for the year under review. Turnover rose 26% to HK\$207.0 million compared with HK\$164.8 million in 2001. Net profit attributable to shareholders amounted to HK\$44.5 million, representing an increase of 37% over HK\$32.5 million in 2001. During the year, the Group undertook stringent cost control measures, improving net profit margin in 2002 to 21.5% against 19.7% in 2001.

The Group designs, manufactures and sells a wide range of home furniture under the registered brand names of "Royal" and "Knight", targeting the medium to high-end home furniture market in China. To catch up with rising living standards and consumer expectation on quality, the Group has remained its commitment to improve its design concepts and capability. The Group's product development team consisted of experienced designers who work closely with the sales and marketing team to keep abreast of the latest market trends. During the year, the Group launched a new furniture series, the "Black Walnut", which was well accepted by the market. Besides "Black Walnut", the Group also had two other series on sale in market which were "Knight (Youngster)" and "Ebony".

While developing new products is important in maintaining the Group's leading market position, efforts in obtaining product design patents to prevent piracy also serves to protect the Group's intellectual rights, allowing it to establish a premium brand status in the industry. Responding to the growing awareness of environmental protection among consumers and also to stay globally competitive, the Group will continue to develop new furniture pieces with environmentally friendly and inflammable features.

To increase market penetration, the Group has adopted an efficient franchise system to distribute its products in China. It is the first mainland furniture manufacturer to distribute products through a franchise system in the country. The Group will review the management experience, industry know-how and financial status of potential franchisees before they are granted the rights to open specialty outlets under the brands "Royal Furniture" and "Knight Furniture". For each of the two brands, only one license will be granted to a franchisee in each city so as to avoid competition among franchisees within the same region. The franchise operation has been successful in allowing the Group to expand its distribution network faster and at lower risk and costs.

Geographically, sales to the Central and Eastern regions in China recorded the fastest growth of 58% and 54% respectively in 2002. The two regions are now the most affluent areas in China and the provinces therein with fast growing rates include Jiangsu, Zhejiang, Shandong, Hubei, Hunan and Jiangxi.

To reach the sparsely located population in the country, the Group proactively participated in a number of major international exhibitions and trade shows during the year to increase its exposure to local distributors. It also held seminars for potential distributors in new markets in different provinces to promote its wide range of products and strengths. These marketing efforts have proven successful by the increase of 148 specialty outlets during the year. As at 31 December 2002, the Group had 370 specialty outlets in China.

Besides expanding its distribution network, the Group has also moved forward to enhance its production efficiencies and cost effectiveness. The increasing orders received has prompted it to commence the operation of a new production facility in Guangzhou in October 2002. The new facility with a total floor area of 8,000 sq.m. enabled the Group to increase its overall production volume by 20% with a maximal production capacity of 7,500 sets of furniture per month. Realizing that the brand names are its important assets, the Group is committed to maintaining and upgrading the quality of its products. By adopting stringent quality control measures, the Group is proud to maintain producing quality products, bringing it closer to the goal of producing perfect products. With these improvements, the Group has been able to attain optimal cost efficiency and heighten net profit margins.

PROSPECTS

With the funds raised from the listing, the Group will continue to strategically expand its distribution network in China and strengthen its product development capabilities. Despite the uncertainties assailing the global economy, with the continuous growth of consumer spending and the property sector in China, the Group remains highly confident of the outlook of the furniture industry in the country.

According to the Ministry of Construction, China will have a total urban population of 630 million and an urbanization rate of 45% by 2010. As the development of commercial and residential buildings speeds up in major cities in China in the next few years, the demands for furniture and other related accessories are also expected to escalate.

On the other hand, the Group's competitive edge is further boosted by the newly established facility in Guangzhou. Its production now enjoys higher flexibility and scalability. With strong financial support and profound experience, the Group will be able to increase its production capacity to cater for the fast growing market demands. The Group will also continue to implement stringent cost control measures to further improve its profitability.

In March this year, the Group participated in the 2003 China International Furniture Fair (Guangzhou) and the 2003 China (Dongguan) International Famous Furniture Exhibition. The Group also announced the appointment of celebrity Ms Rosmund Kwan as its spokesperson. The Group believes the marketing strategy will effectively upgrade its corporate image and stimulate sales at the same time.

The encouraging sales performance in the first quarter of 2003 and the positive customer responses after the Guangzhou trade fair have led the Group to believe that it will continue to experience dynamic growth. The Group targets to expand its distribution network to 1,000 specialty outlets by the end of 2005.

To expand its operations and enhance management, the Group will cautiously consider collaboration with overseas business partners. The Group will only pursue strategic transactions that will create synergies in the Group's operations and facilitate its achievement of business objectives.

Moving forward, armed with extensive experience, innovative products and aggressive marketing plans, the Group is confident that it will successfully execute its development strategies to capture emerging opportunities in the furniture market in China.