

Chairman's Statement



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On behalf of the Board of Directors ("the Board"), I am pleased to report the annual results of the Company and its subsidiaries ("the Group") for the year ended December 31, 2005.

FINANCIAL RESULTS

For the year ended December 31, 2005, the Group's turnover amounted to RMB3,475,457,000, representing an increase of 21.8% as compared to RMB2,852,391,000 for the previous year. Gross profit also grew from RMB443,672,000 for the previous year to RMB548,263,000 for the current year. Profit attributable to equity holders of the Company amounted to RMB265,699,000, representing an increase of 17.7% as compared to RMB225,701,000 for the previous year.

Basic earnings per share for the year ended December 31, 2005 was RMB41 cents (2004: RMB47 cents).

The Board, therefore, recommended the payment of a final dividend of approximately RMB7.86 cents (equivalent to US0.98 cents or HK7.58 cents) per ordinary share, which is subject to shareholders' approval at the forthcoming AGM. The Company intends to make regular payment of dividends in the future, so that our shareholders can share the positive operating results of the Group.

BUSINESS REVIEW

I am pleased to announce that the Group's core business, including upholstered furniture and furniture leather, has again recorded remarkable growth in both turnover and profit, mainly attributable to active market expansion, continuous capacity uplift and rigorous cost control.

As in the previous years, the Group continues to face challenges such as increase in the cost of production and some of the raw materials. In addition, from the second half of 2005, the RMB appreciated in value against the US dollar and other foreign currencies. However, by implementing certain strategies such as continuing to develop new products with value-added features, implementing cost control and expenditure restraint and enhancing productivity, the Group was able to maintain a persistent growth of turnover and profit, while relieving the impact of increase in production cost and RMB appreciation. These strategies had been proved successful and begun to yield significant results.

BUSINESS EXPANSION AND INVESTMENT

The Higher Point Project

During the year, six of the Group's factories set up in Higher Point Sofa Industrial Park in Haining, Zhejiang Province commenced formal production. These factories recorded a turnover of RMB925,916,000 in 2005 (2004: RMB265,722,000), representing an increase of 248.5%, which marked the beginning of profit-making. The Higher Point Project, with its large scale capabilities, has aroused enormous interest of major overseas furniture manufacturers and will become the driving force for the Group's future expansion.

Total gross floor area of 741,760 square metres of the Higher Point Project had been put into use, accounting for 58% of the total gross floor area of the Group's production space. As the Group acquired the land for the Higher Point Project on rather favourable terms, with a cost of land use right of only RMB97.3 for each square metre of the gross floor area of the production space, which is far below the average cost of land use right of RMB120.3 per square metre of the gross floor area of other production facilities of the Group. The investment in the Higher Point Project enables the Group to expand its production capability at a rather low cost.

Chairman's Statement (cont'd)

Other Investments

During the year, the Group invested US\$100,000 in a joint-venture, Haining City Kasen-Melx Leather Co., Ltd. ("Kasen-Melx"), and controlled 50% of its equity in August 2005.

As Kasen-Melx has just commenced operation, it did not contribute any profit to the Group, which is within the Group's expectation. It is expected that Kasen-Melx will make contribution to the Group's profit in 2006.

In addition, in July, 2005, the Group injected RMB50,675,000 into a joint venture, Future Foam Asia, Inc. and held 25% of its equity, upon which the Group had completed its capital contribution of RMB10,240,000 to the joint venture.

Future Foam Asia, Inc. recorded a turnover of RMB6,639,000 and a loss of RMB1,114,000 attributable to the Group for the year. The loss was mainly due to the relatively high preliminary expenses arising in the start-up stage and the higher cost of production.

FUTURE PLAN AND PROSPECTS

Though facing challenges on the Group's future growth as a result of the appreciation of the RMB and rising raw material price and labour cost, I am fully confident that with the whole-hearted devotion and hard work of its employees, the Group will maintain its momentum of rapid growth.

Two of the core businesses of the Group comprise upholstered furniture and furniture leather, which have been rendering remarkable performance and up to the expectation of the Group. The Group will continue to focus on its core businesses and maintain its competitive edge, so as to seize a bigger market share in the future.

In addition to its core businesses, the Group will expand the research and development as well as sales of automotive leather and footwear leather. It is expected that the Group's joint venture, Kasen-Melx, which was established with Melx of Japan, will achieve better results in 2006. The Group will also commence research and development of outdoor casual gear, which is expected to bring significant contribution to the sales of the Group in 2006.

We believe that the global trend of manufacturing outsourcing in the upholstered furniture industry will continue, as a result, the demand for the Group's products will keep on a cheerful growth. In view of the current market conditions, the Group believes that with its competitive cost structure, vertical integrated manufacturing capabilities, large-scale operations, in-depth technology know-how, established customer base and highly devised marketing strategy, the growth momentum of the Group's sales will sustain throughout 2006.

The Group will set up and implement an ERP system in 2006 to improve its existing management IT system. The Group believes that such system will not only realise real-time management, but also improve the communication with its customers and suppliers, and strengthen financial control, particularly the management of trade receivables, trade payables and inventory.

Chairman's Statement (cont'd)

ACKNOWLEDGEMENT

I hereby take this opportunity to express my heartfelt gratitude to my fellow directors and the senior management of the Group for their support.

Also, on behalf of the Board of Directors, I wish to express my heartfelt appreciation to our employees for their outstanding service and contributions to the development of the Company, and to our suppliers, customers and shareholders for their continuous support.

Chairman

ZHU Zhangjin

Hong Kong, April 19, 2006