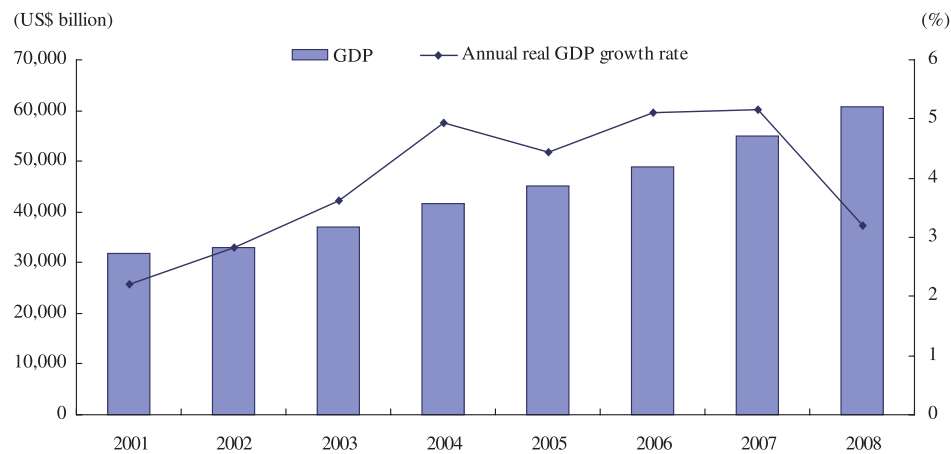


## INDUSTRY OVERVIEW

### OVERVIEW OF THE WORLD ECONOMY

The world economy has grown steadily from 2001 to 2008. According to the World Economic Outlook, April 2009 edition published by the International Monetary Fund, the GDP of the world grew from approximately US\$31,707 billion (approximately HK\$247,315 billion) in 2001 to approximately US\$60,690 billion (approximately HK\$473,382 billion) in 2008, representing a CAGR of approximately 9.7%. During the same period, the world's annual real GDP growth accelerated from 2.2% in 2001 to 3.2% in 2008. The following chart sets forth the GDP and the annual real GDP growth of the world between 2001 and 2008.

**Chart 1: GDP and annual real GDP growth rate 2001-2008**



*Source: World Economic Outlook, April 2009 edition published by International Monetary Fund*

In 2008, the global economy has been adversely affected by the deepening crisis on financial markets that originated in the U.S. subprime mortgage market. Intensifying solvency concerns have triggered a series of bankruptcies, forced mergers, and government interventions in the United States and Europe. Credit conditions have become significantly tighter. To counter the economic downturn amid the global financial crisis, various government authorities around the world have responded quickly and announced measures aimed at supporting major institutions, stabilising markets and bolstering confidence.

Nevertheless, the International Monetary Fund projected that the world GDP would decline by 1.3% in 2009 as compared to 2008.

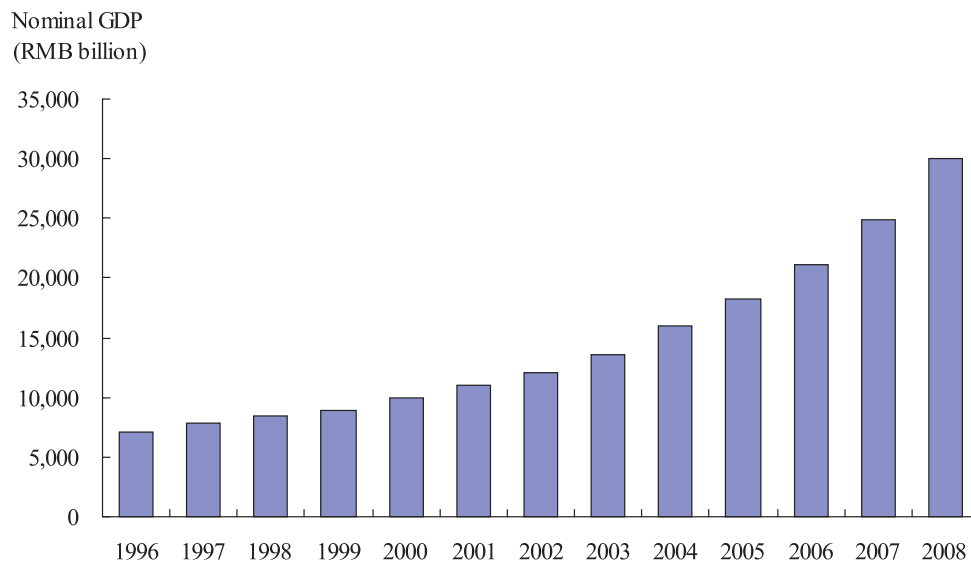
## INDUSTRY OVERVIEW

### THE PRC ECONOMY

The PRC economy has been growing significantly in the last decade. According to the National Bureau of Statistics of China, the GDP per capita increased from RMB5,846 in 1996 to RMB18,934 in 2007, representing a CAGR of approximately [11.3]%.

From 1996 to 2008, the nominal GDP of the PRC increased from approximately RMB7,118 billion to approximately RMB30,066 billion, representing a CAGR of approximately [12.8]%. The following chart sets forth the nominal GDP of the PRC from 1996 to 2008.

**Chart 2: Nominal GDP of the PRC**

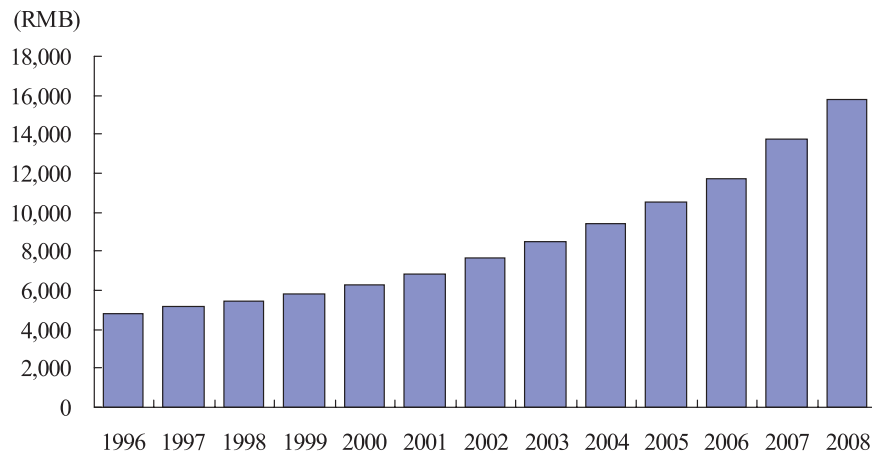


*Source: The National Bureau of Statistics of China*

## INDUSTRY OVERVIEW

Accompanied with the growth in the PRC economy as shown above, the purchasing power of the urban households has also experienced significant increase as shown by their per capita annual disposable income. During the period from 1996 to 2008, the per capita annual disposable income of the PRC urban households increased from approximately RMB4,839 in 1996 to approximately RMB15,781 in 2008, representing a CAGR of approximately [10.4]%. The following chart shows the per capita annual disposable income of urban households in the PRC from 1996 to 2008.

**Chart 3: Per capita annual disposable income of urban households in the PRC**



*Source: The National Bureau of Statistics of China*

Among income groups of urban households, the per capita disposable income of middle and high income groups has grown at a faster pace than other groups from 2000 to 2007. The following table illustrates the CAGR of the annual disposable income per capita of different income groups of urban households in the PRC from 2000 to 2007. The furniture products of the Group are targeted at the mid to high price point consumers. Hence, the growing trend of the per capita disposable income of the middle and high income groups would be of significant importance to the business of the Group.

**Table 1: The CAGR of the annual disposable income per capita of different income groups of urban households in the PRC**

	Lowest	Low	Lower middle	Middle	Upper middle	High	Highest
CAGR (2000 to 2007)	6.8%	8.7%	9.8%	10.7%	11.8%	13.0%	15.6%

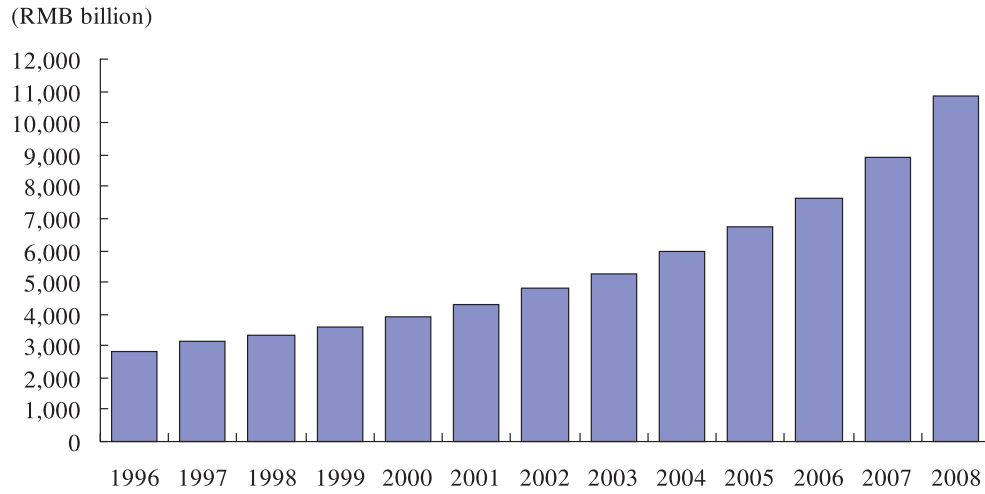
*Source: The National Bureau of Statistics of China*

## INDUSTRY OVERVIEW

### THE PRC CONSUMER MARKET

The PRC retail market has experienced rapid expansion in the last decade. The retail sales of consumer goods increased from approximately RMB2,836 billion in 1996 to approximately RMB10,849 billion in 2008, representing a CAGR of approximately [11.8]%. The following chart sets forth the total retail sales revenue of consumer goods of the PRC from 1996 to 2008.

**Chart 4: The total retail sales revenue of the PRC consumer market**



Source: *The National Bureau of Statistics of China*

According to the Hong Kong Trade Development Council, home furniture products are considered as one of the basic consumption necessities with high market potential. Along with the sustainable improvement of the housing condition in the PRC, people in the PRC have become more generous in decorating their living places, which induces an increase of the consumption of home furniture in the PRC.

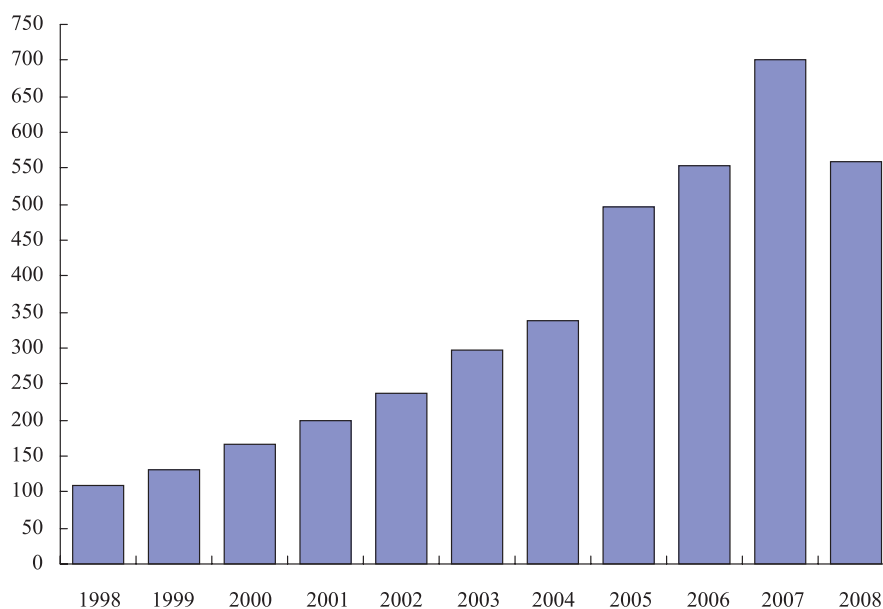
## INDUSTRY OVERVIEW

### THE PRC RESIDENTIAL PROPERTY MARKET

According to the National Bureau of Statistics of China, the annual [total GFA] of general residential property sold in the PRC increased from approximately [108.3] million sq.m. in 1998 to approximately [558.9] million sq.m. in 2008, representing a CAGR of approximately [17.8]%. The following chart sets forth the total GFA of general residential property sold in the PRC from 1998 to 2008.

**Chart 5: Total GFA of general residential property sold in the PRC**

(sq.m. in millions)

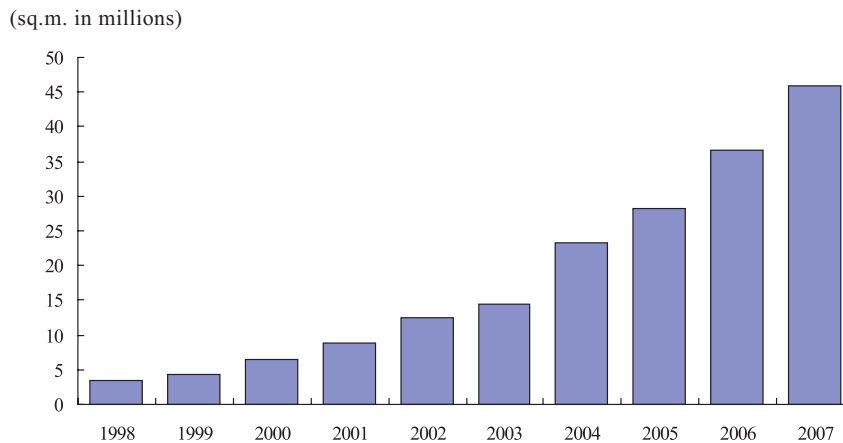


Source: *The National Bureau of Statistics of China*

## INDUSTRY OVERVIEW

With the strong increase in the purchasing power of the high to highest income group as shown in Table 1 above, the total GFA of luxury residential property comprising villas and high-grade apartments sold increased at a CAGR of approximately [33.1]% from approximately [3.5] million sq.m. in 1998 to approximately [45.8] million sq.m. in 2007, which outpaced the growth rate of the total GFA of general residential property sold in the PRC of approximately [23.1%] for the same period. The following chart sets forth the substantial growth of total GFA of luxury residential property sold in the PRC from 1998 to 2007.

**Chart 6: Total GFA of luxury residential property sold in the PRC**



Source: *China Statistical Yearbook (2008)* published by the National Bureau of Statistics of China

The PRC government has recently announced various stimulus measures to boost the property market. On 22 October 2008, the Ministry of Finance of the PRC and the State Administration of Taxation jointly promulgated 關於調整房地產交易環節稅收政策的通知 (Notice on Adjustment of Taxation on Property Transactions), according to which the property deed tax is reduced to 1% for domestic residents purchasing their first residential property not exceeding 90 sq.m.. In addition, stamp duty and land value-added tax in property transactions have been abolished. In order to further stimulate the property market, the PBOC declared that from 27 October 2008 onwards, the down payment for mortgages will be reduced from 30% to 20% of the purchase price and banks are allowed to charge as low as 70% of benchmark lending rates for such mortgages. Furthermore, the PBOC has cut lending rate by an aggregate of 2.16% from 16 September 2008 to 23 December 2008, which would help the affordability of consumers in purchasing properties. In addition, after a State Council meeting held on 9 November 2008, the PRC government announced its approval of a RMB4 trillion stimulus package up to 2010 to boost domestic demand.

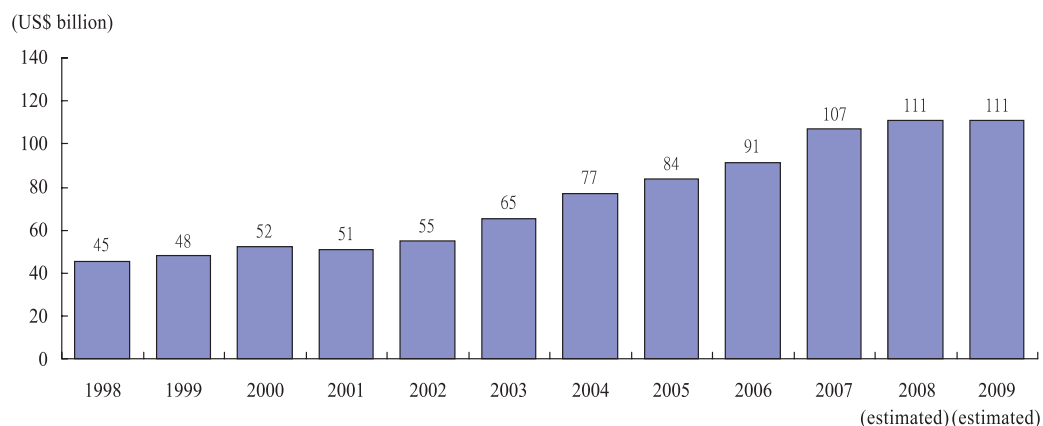
## INDUSTRY OVERVIEW

### THE FURNITURE INDUSTRY

#### The world furniture industry

According to the World Furniture Outlook 2009 which was subscribed by the Group from the website of Csil Milano, the global furniture trade rose from US\$45 billion in 1998 to US\$107 billion in 2007, representing a CAGR of approximately [10.1]%. Csil Milano projected that global furniture trade would reach approximately US\$111 billion in 2008 and then remain constant in 2009. The following chart illustrates the world trade of furniture between 1998 and 2007 and the estimated figures for 2008 and 2009.

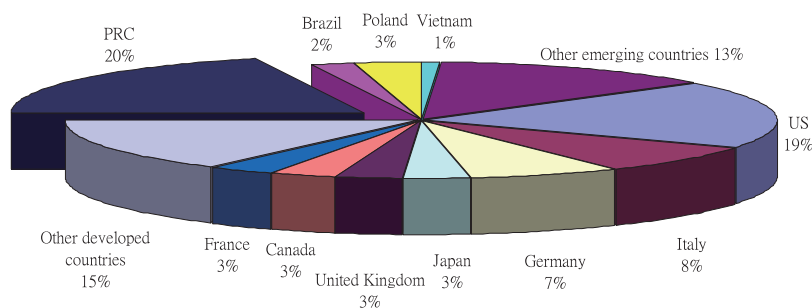
**Chart 7: World trade of furniture**



*Source: The World Furniture Outlook 2009 published by Csil Milano*

Furthermore, according to the World Furniture Outlook 2009 published by Csil Milano, the world furniture production was worth about US\$350 billion in 2007 and the five leading countries were the PRC, the United States, Italy, Germany and Japan. The following chart illustrates the source and percentage of world furniture production in [2007].

**Chart 8: World furniture production for the year of 2007**



*Source: The World Furniture Outlook 2009 published by Csil Milano*

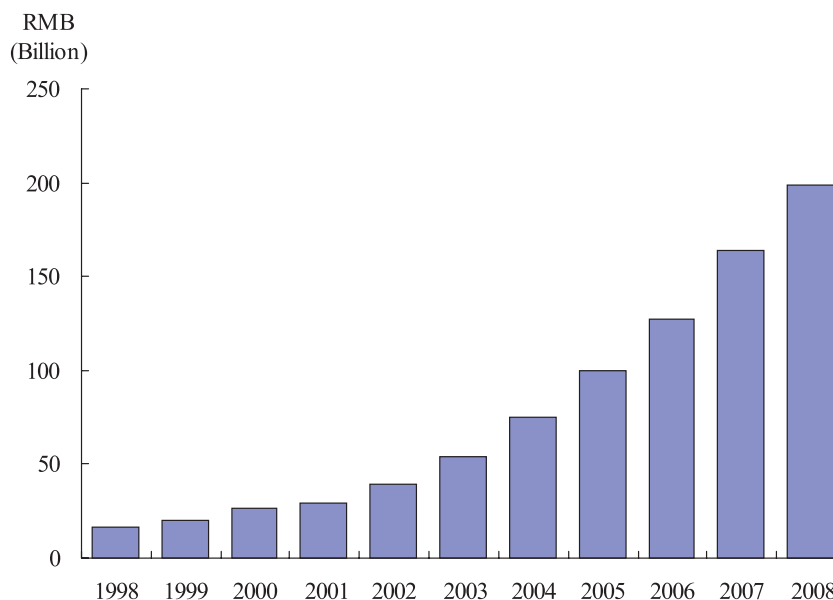
## INDUSTRY OVERVIEW

### The furniture industry in the PRC

Along with the growth of the economy and the booming consumer and residential property markets in the PRC, the PRC furniture industry has been growing with strong momentum in recent years. According to the data sourced from the CNFA, the total furniture production value in the PRC during the period of the Tenth Five-Year Plan approved by the National People's Congress of the PRC increased from RMB120 billion in 2000 to RMB340 billion in 2005. In addition, as illustrated in Chart 8 above, the PRC was the largest furniture manufacturer in terms of production in the world in [2007], with production value amounting to approximately US\$71 billion (approximately RMB540 billion) in that year.

As mentioned in the World Furniture Outlook 2009 published by Csil Milano, [the PRC was the largest furniture exporting country in the world] from 2005 to 2008. According to the National Bureau of Statistics of China, [the PRC furniture export increased from approximately RMB16.2 billion in 1998 to approximately RMB199.0 billion in 2008, representing a CAGR of approximately 28.5%]. The following chart sets forth the total furniture export value in the PRC from 1998 to 2008.

**Chart 9: Total export value of the PRC furniture industry**



Source: The National Bureau of Statistics of China



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## INDUSTRY OVERVIEW

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### **The competitive landscape of the furniture industry in the PRC**

The home furniture industry in the PRC is highly competitive and it mostly consists of small to medium size market participants. The furniture industry in the PRC comprises approximately 50,000 small to medium-sized enterprises with no apparent brands dominating the market. The total turnover of the top ten enterprises in the industry only accounted for approximately 2.8% of the industry total turnover, according to the China Light Industry Yearbook 2006 published by 中國輕工業協會 (China National Light Industry Council) which is a nation-wide industry organisation with service and management functions in the PRC. China National Light Industry Council acts as the bridge between government and enterprises, and promotes light industry development in the PRC and strengthens international cooperation. There are no significant entry barriers to the home furniture industry. The Group faces competition from other medium to large scale home furniture manufacturers and suppliers, in particular, those with their own established brand names and strong design capabilities.

According to the CNFA, the Pearl River Delta area is well known as the most concentrated, most productive and best equipped region in the furniture industry in the PRC. As the import furniture tariff for the most favorite nations was adjusted to zero percent on 1 January 2005 in the PRC, some overseas furniture companies began to shift their businesses to the PRC which intensifies the competition of the furniture market and the selling price of furniture began to come under pressure. The term “most favorite nations” in the context of the PRC tariff schedules refers to the members of the World Trade Organisation and other nations that have bilateral trade agreements with the PRC.

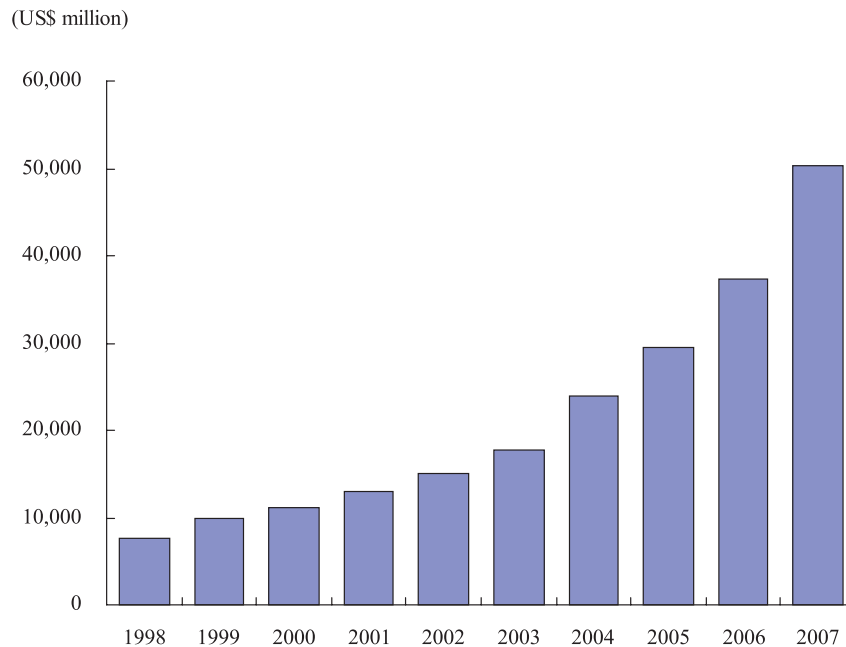
According to the Csil Milano report, furniture products worth approximately US\$882 million were imported into the PRC in 2007, which accounted for approximately 1.8% of the total consumption of the PRC furniture market. In other words, the domestic production in the PRC supplied nearly the entire PRC furniture consumption market. In addition, the total import value of furniture reached approximately US\$1,104 million in 2008 according to the CNFA, among which wood-based furniture products accounted for approximately US\$173 million. The Directors believe that the competitive landscape is characterised by the increasing number of market participants and ever higher consumers’ demands as well as the growing expectations as to the prices, design, style and quality of the furniture products.

## INDUSTRY OVERVIEW

### The furniture market in the PRC

According to the Csil Milano report, during the period from 1998 to 2007, the total furniture consumption in the PRC increased from approximately US\$7,529 million in 1998 to approximately US\$50,337 million in 2007, representing a CAGR of approximately 23.5%. Csil Milano further estimated that the real growth of furniture consumption in the PRC would be approximately 7% in both 2008 and 2009. The chart below illustrates the growth of total furniture consumption in the PRC from 1998 to 2007.

**Chart 10: Total furniture consumption in the PRC**



Source: *The World Furniture Outlook 2009* published by Csil Milano

According to the Hong Kong Trade Development Council, the annual per capita furniture consumption in the PRC was less than RMB100 as at November 2008 and lagged far behind the average standard of the world. In addition, nearly 120 million families with an aggregate GFA of approximately 2 billion sq.m. of residential property in the PRC will be potentially in need of carrying out renovation work in the next few years. In light of the potential demand, there will be approximately 10% of the PRC families in need of new furniture annually. In addition, the GFA of newly constructed residential properties with an annual growth rate of approximately 10% will exceed 6 billion sq.m. within the coming ten years.

## INDUSTRY OVERVIEW

According to the Hong Kong Trade Development Council, the living standards of people in the PRC have generally improved as reflected by the increasing disposable income of urban households. The functionality of furniture is no longer the only consideration during furniture consumption as the furniture style has gradually become a significant consideration as well. In addition, as one of the strongest purchasing power segments in the PRC, the middle class has become the major consumers of trendy and fashionable composite furniture. During the period from 2002 to 2006, the growth rate of composite furniture owned by households in the PRC increased across middle to high income groups. Moreover, as shown in Table 1 above, the middle and high income groups experienced a faster growth in annual disposable income per capita, which would also indicate that these income groups would be able to afford a higher level of spending on furniture products. The following table sets forth the sets of composite furniture owned per 100 urban households in the PRC by different income groups from 2002 to 2006.

**Table 2: Sets of composite furniture owned per 100 urban households  
in the PRC by different income groups**

	<b>Middle</b> (set)	<b>Upper middle</b> (set)	<b>High</b> (set)	<b>Highest</b> (set)
2006	79.1	84.9	91.0	103.3
2005	78.1	83.0	89.2	100.4
2004	76.3	81.7	86.3	98.8
2003	72.7	77.5	80.7	93.5
2002	71.1	76.0	76.9	85.6
CAGR (2002 to 2006)	2.7%	2.8%	4.3%	4.8%

*Source: China Statistical Yearbook (2007) published by the National Bureau of Statistics of China*

As illustrated in Table 2 above, the highest income group experienced the fastest growth rate in composite furniture owned during the relevant period.