Management Discussion and Analysis

Business Review

Turnover

Turnover was approximately US$517.0 million, an increase of US$59.5 million compared with 2004. The analysis of turnover is as follows:

	2005		2004		Increase	
	US$ M	***%***	*US$ M*	*%*	*US$ M*	*%*
Branded business	**455.8**	**88.2**	405.6	88.7	50.2	12.4
OEM business	**61.2**	**11.8**	51.9	11.3	9.3	17.9
Total	**517.0**	**100.0**	457.5	100.0	59.5	13.0

Increase in sales of our branded business was due to the introduction of new products such as upholstery and youth furniture and increase in demand from existing and new customers.

Increase in sales of our OEM business was due to an increase in demand from existing and new OEM customers and an increase in our overall production capacity which enabled our Dongguan facility to produce more OEM products.

Gross Profit

Gross profit margin increased to 34.2% from 32.1% in 2004, mainly due to operating efficiency gained from China manufacturing arms in 2005.

Operating Expenses

Total operating expenses increased to US$81.5 million from US$73.1 million in 2004. The change was primarily due to an increase in trading volume.

Profit for the Year

Profit for the year increased to US$89.0 million from US$70.1 million in 2004. Net profit margin increased to 17.2% from 15.3% in 2004.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2005, the Group's cash and cash equivalents increased 166.5% to US$110.6 million compared with US$41.5 million in 2004 and the Group's bank borrowings were fully repaid during the year compared with US$44.1 million in 2004.

The gearing ratio (total bank borrowings/shareholders' equity) was reduced from 32.3% in 2004 to nil in 2005.

The significant increase in cash and cash equivalents was mainly attributable to the net proceeds of approximately US$157 million from the issue of shares during the listing of the Company's shares on the Stock Exchange and cash flow generated from operation offset by the repayment of bank borrowings and capital expenditure.

As substantially all of our turnover and most of our cost of sales are denominated in US dollars, we have not had any material foreign exchange gains or losses in connection with our operations.

The Group's current assets increased 50.9% to US$320.3 million compared with US$212.3 million in 2004 and the Group's current liabilities decreased 53.1% to US$77.9 million compared with US$166.2 million in 2004.

The current ratio (current assets/current liabilities) was 4.1 times (2004: 1.3 times).

Contingent Liabilities

Except as disclosed in note 35 to the financial statements, the Group did not have any material contingent liabilities as at 31 December 2005.

Pledge of Assets

As at 31 December 2005, the Group's inventories of approximately US$10.8 million (2004: US$8.9 million) and trade and other receivables of approximately US$57.0 million (2004: US$34.7 million) had been pledged to banks to secure the general banking facilities granted to the Group.

Capital Expenditure and Use of Proceeds

Capital expenditures decreased to US$19.1 million from US$29.5 million in 2004 comprised of the purchase of property, plant and equipment. The decrease was mainly due to the completion of the first phase construction of our Jiashan and Dongguan facilities. Following the commencement of expanding our production and warehouse capacity at our Dongguan and Jiashan facilities in 2006, we anticipate that capital expenditures will increase accordingly in the year 2006.

Up to 31 December 2005, we spent US$7.1 million in capital expenditures and US$65.7 million in repayment of bank borrowings from the proceeds from issue of shares.

Employees and Emolument Policy

As at 31 December 2005, the Group employed approximately 12,500 full-time employees in the People's Republic of China (the "PRC"), U.S. and Taiwan.

The Company believes that the ability to grow as a successful business depends on the quality of our management and employees. The Company is committed to recruiting, training and retaining skilled and experienced people throughout our operations globally to better serve our customers. The Company intends to do this through our remuneration packages, including discretionary bonuses and share option scheme, as well as an emphasis on employee training. The emolument of the employees of the Group is on the basis of their merit, qualifications and competence. The emoluments of the directors and senior management of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.