

INDUSTRY OVERVIEW

The information provided in this section and, as disclosed elsewhere in this prospectus relating to the industry background is derived in part or extracted from various official and unofficial sources which the Directors generally believe to be useful to prospective investors. The official sources include the preliminary edition of OECD Economic Outlook No. 76 dated 25 November 2004, as disclosed on pages 32 and 33, the website of U.S. Bureau of Economic Analysis, as disclosed on page 33, Report FT900 published by the Bureau of Census, Foreign Trade Division of the U.S. in December 2004 and the website of U.S. Census Bureau, as disclosed on page 35 in this prospectus. The Company has taken reasonable care in the extraction, compilation and reproduction of the information presented in this section. However, the Company, the Sponsor and the Underwriters cannot guarantee the accuracy of such information and statistics derived from those official sources. Such information and statistics may not be consistent with other information and statistics compiled within or outside Hong Kong and accordingly, should not be unduly relied upon.

WORLD ECONOMIC OUTLOOK

Economic growth and the ensuing improvement in living standard have direct bearing on the demand for furnishings and household products. It is notable that although world economic growth this year may slow from the robust rate recorded in 2004, prospects beyond 2005 appear favorable.

The OECD has projected the U.S. real gross domestic growth (GDP) to fall from 4.4% in 2004 to 3.3% in 2005 and recover to 3.6% in 2006. On the back of this snapback and as mentioned in the preliminary edition of OECD Economic Outlook No. 76 dated 25 November 2004, the OECD has forecasted a significant pick-up of domestic demand in the euro area in 2005-2006. Real GDP growth of the euro area is expected to stay relatively flat at 1.9% in 2005 and rebound strongly to 2.5% in 2006.

Also mentioned in the preliminary edition of OECD Economic Outlook No. 76 dated 25 November 2004, based on the assumption that oil prices and exchange rates remain stable, the real GDP growth of the total OECD, which consists of 30 member countries in the world, is expected to decelerate from 3.6% in 2004 to 2.9% in 2005 and bounce to 3.1% in 2006. In addition, the OECD has expected the world trade growth to maintain the 9.5% momentum achieved in 2004, projecting annual growth of 9.0% in 2005 and 9.5% in 2006.

Key Economic Indicators

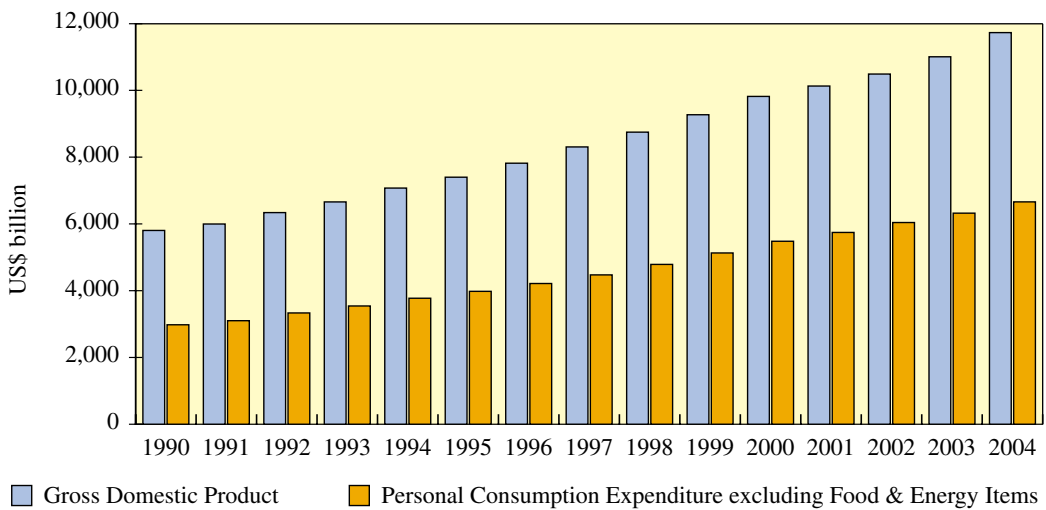
Real GDP Growth	2004	2005	2006
United States	4.4%	3.3%	3.6%
Japan	4.0%	2.1%	2.3%
Euro Area	1.8%	1.9%	2.5%
Total OECD	3.6%	2.9%	3.1%
World Trade Growth	9.5%	9.0%	9.5%

Sources: Preliminary edition of OECD Economic Outlook No. 76 dated 25 November 2004

DEMAND FOR FURNISHINGS AND HOUSEHOLD PRODUCTS

The demand for furnishings and household products is a function of personal consumption expenditure. As the living standard of the world's population grows increasingly affluent, personal consumption expenditure rises at a faster rate. According to U.S. Bureau of Economic Analysis and as mentioned in the preliminary edition of OECD Economic Outlook No. 76 dated 25 November 2004, the U.S. is a case in point. Exhibit 1 shows that while the U.S. GDP has increased by 102.1% between 1990 and 2004, personal consumption expenditure excluding food and energy items has increased by 123.6%. Along similar vein, personal consumption expenditure (excluding food and energy items) as a percentage of GDP has risen from 51.3% in 1990 to 56.8% in 2004.

Exhibit 1: GDP vs. Personal Consumption Expenditure



Source: U.S. Bureau of Economic Analysis (based on the preliminary edition of OECD Economic Outlook No. 76 dated 25 November 2004)

The U.S. example indicates that as disposable income rises, consumers incline to allocate a larger proportion of earnings on the place they live and smaller proportion on food and clothing. As a result, demand for home furnishings increases.

THE WORLD FURNITURE INDUSTRY

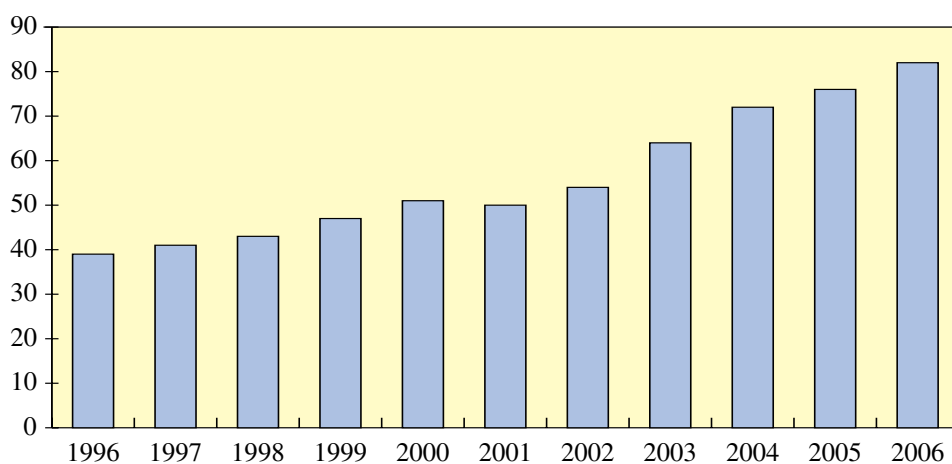
As revealed in the newsletter published by MÖBELMARKT in January 2005, world production of furniture is estimated to be worth about US\$220 billion (approximately HK\$1,716 billion) per annum in 2004 up from US\$200 billion (approximately HK\$1,560 billion) in 2002, according to the estimation made by CSIL Milano, a leading furniture research and consulting firm in Italy. Of the 2002 total, about US\$150 billion (approximately HK\$1,170 billion) is for domestic consumption in the producing countries, while about US\$50 billion (approximately HK\$390 billion) makes up total international furniture trade.

Global furniture trade estimated by CSIL Milano had grown from about US\$54 billion (approximately HK\$421 billion) in 2002 to about US\$72 billion (approximately HK\$561 billion) in 2004, a rise of approximately 33.3%. CSIL Milano has further estimated that furniture trade will rise by about 13.9% to US\$82 billion (approximately HK\$639 billion) in 2006. The leading furniture importers are the US, Germany, the United Kingdom, France, Japan and Canada. The leading furniture exporters are Italy, China, Germany, Canada, the US and Poland.

For 2005, CSIL Milano has forecasted a rise in furniture consumption of between 1% to 3% in most key European countries.

Exhibit 2: World trade of furniture 1996-2006

(in current US\$ billion)

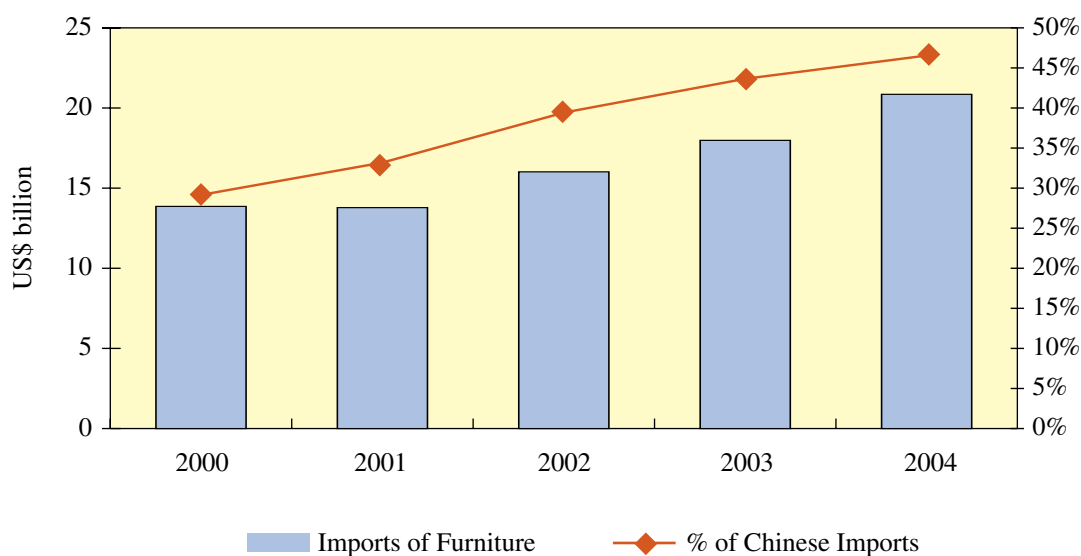


Source: CSIL Milano from industry and official data as published by MÖBELMARKT in the newsletter dated January 2005

THE FURNITURE INDUSTRY IN CHINA

World furniture markets have become increasingly open. The emergence of China as a low-cost supplier is changing the demand-supply dynamics in the global furniture industry. The rapid increase in furniture imports into the U.S. exemplifies the current environment. According to Report FT900 published by the Bureau of Census, Foreign Trade Division of the US, in December 2004, from 2000 through 2004, total imports into the U.S. of furniture and household goods rose from US\$13.9 billion (approximately HK\$108 billion) to US\$20.9 billion (approximately HK\$163 billion), a compound annual growth of 10.8%. In the same period, Chinese imports into the U.S. of furniture and household goods surged from US\$4 billion (approximately HK\$31 billion) to US\$9.7 billion (approximately HK\$75 billion), a compound annual growth of 24.5%. The proportion of Chinese imports into the U.S. of furniture and household goods ballooned from 29% in 2000 to almost 47% in 2004.

Exhibit 3: U.S. imports of furniture



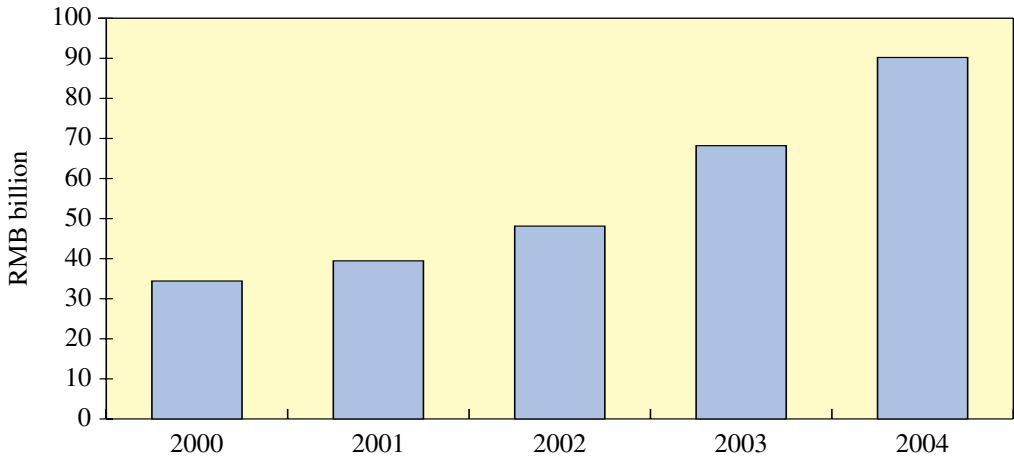
Source: U.S. Census Bureau (based on the information disclosed on the website of U.S. Census Bureau and created on 22 August 2002, 13 June 2003, 14 June 2004, 10 February 2005 and 10 June 2005)

The competitive advantage of Chinese producers is threatening the survival of the U.S. furniture manufacturing industry. Despite concerns of massive job losses in the U.S., the displacement trend appears likely to continue. According to Wall Street Journal dated 10 November 2004, the U.S. Commerce Department has ruled in November 2004 to cut the proposed tariff rate for 115 Chinese manufacturers to 8.6% from 12.9%. The reduction of tariff rates means that big furniture stores in the U.S. will continue to order heavily from Chinese factories which will in turn accelerate the relocation of furniture manufacturing base from the U.S. to China.

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The rapid expansion of the China furniture industry is presented in Exhibit 4. In terms of sales revenue, the China furniture industry recorded a compound annual growth of over 27% from RMB34.4 billion (approximately HK\$32.4 billion) in 2000 to RMB90.2 billion (approximately HK\$85 billion) in 2004. The strength of future growth will be underpinned by the encouraging long-term global economic outlook, the growing disposable income, the trend of rising home furnishings expenditure, and the elimination of trade barriers which will promote China furniture exports.

Exhibit 4: China Furniture Industry Sales Revenue



Source: Beijing Kang Kai Information Consultancy Co. Ltd, 26 March 2005