

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW AND PROSPECTS

Lighting industry is an indispensable market with huge potentials. As global economy develops and quality of life improves, demand for lighting products stretches beyond simple light provision. People are now looking for lighting products which can create special optical effects and provide decorative functions. Besides consolidating our home lighting business, the Group is also aggressively developing commercial lighting products.



The Group's market focus has always been medium to high-end lighting products. We make lighting products become artistic and develop different lighting products for different environments and different customers. All these make us more outstanding as compared with other manufacturers in the industry. The Group puts much emphasis on research and development and quality control. We provide one-stop services from design to manufacturing, quality control and sales. Design capability is our competitive strength. During the year, out of the 965 new product designs in home lighting, 272 have received orders. The success rate was around 28%.

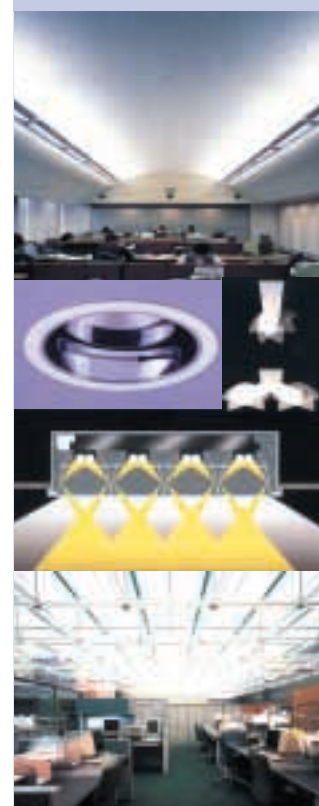
The Group has stepped into a great enhancement regarding the business model. We have constantly introduced state-of-the-art optical and displaying technologies from other countries. Through applying such technologies, we have evolved from the chain of design-manufacture-sales to a one-stop shop of optical design; light design; product design; production and sales. This has added a competitive edge to the Group and enhanced our market advantages.

PRODUCTION

The Group's production facility in Humen, Dongguan, the PRC has a gross floor area of approximately 57,000 square metres. There are 17 production lines and the utilisation rate is around 85%. The Group is planning to build a vertically-integrated production facility so as to maximise profit margin and profitability.

FULL IMPLEMENTATION OF ERP SYSTEM

In modern business environment, those who hold the key to information and effective resources allocation will be winners. Enterprise Resources Planning (ERP) Management System helps greatly in this respect. In line with our future business plans, the Group introduced the ERP system in the third quarter of 2000. Implementation will be in stages and there are continuous upgrading or customisation. The system will be fully in operations by 2001. By then, wastage and indirect manufacturing human resources can be minimised. The lead-time from ordering to delivery can also be shortened. The Group can predict scenarios relating capital, materials and human resources and the system will provide suitable solutions.





The Group generally financed its operations with internally generated cash flow. As at 31 December, 2000, the Group had cash and bank balances of a total amount of HK\$115 million and net current assets of HK\$125 million. The Group has consistently maintained a strong working capital during the year. As at 31 December 2000, the Group had no outstanding borrowings. Its debtor/turnover maintains at two weeks' time (2000 debtor/turnover: 16 days; 1999 debtor/turnover: 13 days). The inventory turnover is better than 1999 (2000 inventory turnover: 23 days; 1999 inventory turnover: 30 days). On the whole, the Group's financial status is very healthy, providing a strong base for our future development.

PROSPECTS

We will be actively developing the commercial lighting market. Besides American market, we will be venturing into the PRC market, and pursue expansion of other markets.

US MARKET

The Group's business in the US market has always been recording encouraging growth. Although US economy shows a sign of slowing down, the Group believes that high technology and related business will relatively suffer more while compared with the general home products industry. The US keeps its 30-year mortgage rate at under 8% and Federal Reserve adopts measures in encouraging the US investment and consumption. From 2001, total interest rate cut reached over 1%. There are still room and possibility for further rate cut. It is true that the Group's two largest customers in the United States has revised their plans of new outlets opening in face of the sluggish economy, but new outlets will still be opened in a prudent manner. The Group is in view of that sales to US market in year 2001 may be slightly affected, but the Group's turnover can be maintained at 2000's levels. The demand for new housing has not dampened in spite of slowdown in economy. Moreover, as the US people has always emphasized quality of life, demand for quality domestic lighting is still strong.

EUROPEAN MARKET

Sales orders of European customers recorded double-digit growth rates in 2000 over 1999. In the coming year, the Group will consolidate its experience and adopt active promotion strategies. We will participate in Europe's largest lighting and furniture fair held in Frankfurt and the commercial fair in Milan. We visit our customers so as to understand their needs and market trends. We employ professional designers to design lighting products according to different market needs. A large-scale lighting showroom targeting at European customers has also been opened. We expect better growth in this market segment in the coming year.

PRC DOMESTIC MARKET

In line with our diversification strategy, the Group is pro-actively developing the PRC lighting market. We expect that China's imminent entry into the World Trade Organisation will catalyse the construction of high-grade commercial buildings and luxury hotels in the Nation. As there is continuous enhancement in the PRC's people quality of life and the 'Western China' development project kicks off, huge amount of capital will be invested in infrastructure. According to State Statistics Bureau, approximately RMB5 billion will be invested in Western China to build 20 airports. Moreover, as a preparation for the possible 2008 Beijing Olympics, an Asian Games Village is under re-construction progress in Beijing. The Group will leverage its manufacturing and technology edge to develop different lighting products for different environment and customers. We will introduce artful home lighting concept into commercial lighting and integrate environmentally-friendly and energy-saving elements into our various designs so as to cope with the needs of different markets.

Currently, our products are sold to over 5,000 retail shops and distributors all over the world, and the number is increasing. In the PRC, we will develop our distribution business and logistics centres in various major cities to complement our marketing strategies and services. With our diligence, innovation and expertise in the lighting industry, the future road for us is bright and rosy.

USE OF PROCEEDS OF THE PUBLIC OFFER

The Company's shares were listed on the Stock Exchange in November 1999. Through the issue of 75 million new shares at HK\$1.13 each, the Group has raised HK\$84.75 million. After deduction of necessary expenses, net proceeds are HK\$71 million.

Up to now, with payments by installment, the Group has spent HK\$10 million for the construction of production facilities and the purchase of related machinery and equipment. At the time of initial public offerings, the Group planned to build up a glass manufacturing factory but the plan has now been changed to establish a commercial lighting factory instead because glass industry environment has changed that the purchase price of glass has cut down. It will not provide cost benefit and also economic efficiency to the Group. However, commercial lighting factory as the Group believes will provide the Group with commercial lighting products which help the Group's expansion in the PRC domestic market.

On the other hand, the Group has spent more than HK\$12 million to develop Northern and Eastern Europe and the PRC markets, where HK\$4 million was raised from the proceed of initial public offerings in 1999. In addition, the Group has used HK\$4 million in product research and development and some of the designs are being manufactured. The remaining HK\$16 million working capital had fully been consumed during the year of 2000. All plans are carried out and will provide satisfactory returns to the Group in the future. The balance of HK\$37 million has been placed on deposits with licensed banks in Hong Kong. These deposits have been receiving reasonable and steady interest income which preserves the best interests of the Group and its shareholders.