

## MANAGEMENT DISCUSSION AND ANALYSIS



### REGIONAL MARKET

#### (i) Export market

##### *North American Markets*

In spite of fierce competition and weak consumer demand in the North American market, which dragged down product prices, the Group still managed to maintain an encouraging growth of approximately 19% in the turnover in this market.

## MANAGEMENT DISCUSSION AND ANALYSIS

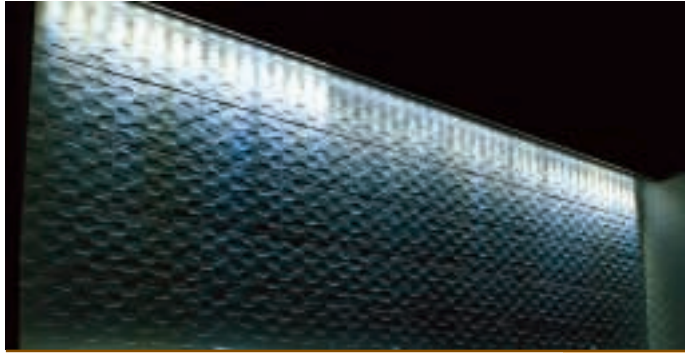
### *Home Lighting Market*

During the Year, orders from the Group's major customers for home lighting products recorded an approximately 17% increase. Due to the customers' promotional sales at discounted prices, the implementation of strategy to increase market share of the Group and the impact of rising prices of raw materials, gross profit margin of the Group was inevitably affected to a certain extent. We anticipate that fierce competition in the home lighting market will continue. In order to counter the competition from small manufacturers, the Group will strategically focus on the research and development of energy-saving and environmental protection products. Though the gross profit margin of the Group was affected by the increase of the price of raw materials, the Group is confident that its strength in research and development will improve the Group's gross profit margin in the long run. The Group will continue to enhance the production efficiency and shorten production cycle in order to drive small and less competitive manufacturers out of the market. In the long run, this strategy will help enhance the Group's market share and profit margin.

The Group is well-informed of market trend and is committed to enhance the capacity of its research and development department in order to minimize the production costs continuously. Meanwhile, the Group will develop more new value-added products, increase the efforts of promoting the concept of applying indoor and outdoor lighting fixtures in various buildings in an attempt to increase profitability and help the Group develop potential target markets. Product designing and research and development department will closely cooperate with the sales team to ensure that the Group's products meet changing needs of the market. With the implementation of the above-mentioned measures, the Group hopes to increase market share and customer acceptance in order to raise the Group's profit margin.

Exploring business opportunities has been the Group's primary focus. The Group has reached an agreement with an import and logistics management company, pursuant to which that company will mainly handle the Group's orders from the small-to-medium-sized hardware and DIY stores. The Group will also make use of that company's logistics and transportation network to deliver the Group's products on a timely basis. It is expected that the integrated approach of combining purchase and delivery will become a prominent development trend in the coming few years. Such business model will help the Group's products penetrate the U.S. market on a nationwide basis more efficiently.

## MANAGEMENT DISCUSSION AND ANALYSIS



*Commercial Lighting Market*

During the Year, the Group made impressive progress that laid a long-term stable foundation for the future development of the Group. In order to accelerate the development of commercial lighting business and to diversify the product mix, the Group acquired a U.S. company in mid-2003. This company possesses rich operational experience and a comprehensive sales network in the commercial lighting segment. To strengthen its competitiveness, it has set up an assembly plant in Mexico which assembles products and then ship the assembled products back to the U.S. for sale. Such arrangement successfully utilizes the comparatively low local labour cost and preferential tax treatment. The Group believes this acquisition will speed up the Group's pace of developing the U.S. commercial lighting market and hence propel the Group's business to reach new heights.

In addition, the Group successfully established a partnership relationship with a sizeable design company early this Year. The company specializes in hotel design and decoration business in the U.S. and targets to the chain hotel customers in the U.S.. With the consent of that company, the Group has become its exclusive supplier of lighting fixtures. Currently, the progress of this project is satisfactory. The Group believes that such relationship with this company will help the Group develop the market in the U.S. and

## MANAGEMENT DISCUSSION AND ANALYSIS

promote the Group's reputation in the hotel sector in the U.S. and generate substantial business opportunities for the Group. In view of the Group's current development in the commercial lighting market, the Group is confident of achieving satisfactory result in future. The Group will endeavour to expand its market share in the commercial lighting market, actively grasp the development opportunities and further enhance the Group's competitive advantage.

### *Canadian Market*

During the Year, the Group achieved satisfactory result in the Canadian market in which turnover increased by approximately 21.5% as compared with last year. Given the Group's excellent product promotion strategy, we expect the business in the Canadian market will grow steadily in future.

### *European Market*

During the Year, the Group recorded a remarkable operating result in the European market in the second half of the Year by managing to turnaround from recording an approximately 1.2% decline in the first half of the Year into an approximately 17% growth for the whole Year. This result clearly shows the Group's substantial business progress in the European market in the second half of the year. The Group has already reached an agreement for cooperation with a DIY store based in Germany. This project has made satisfactory progress during the Year, which demonstrated the Group's success in developing this market. We expect the DIY store of this customer will contribute to the performance enhancement of the Group in future.

### *Asian Market*

During the Year, the business performance of the Group was comparatively unstable. The business in Taiwanese market surged by approximately 92%; while the Japanese market recorded a decrease in turnover by approximately 19.2%.

For Taiwanese market, the Group succeeded in a move to cooperate with a British DIY chain store as this company agreed to sell the products of the Group in its 14 outlets in Taiwan. Both parties have maintained good business relations and the progress has been proved ideal. We expect the Group to continue its strong business development in Taiwan in future.

For Japanese market, the sale of the Group's products in this market was worse-than-expected as the Japanese economy remained weak. During the Year, the Group received a commercial lighting project order from its principle customer in Japan and successfully entered into the Japanese commercial lighting market. Leveraging on the Group's product innovation capability, good production facilities, high quality products, stable and relatively low costs and one-stop purchase service, we will continue to maintain competitive advantage and make efforts to become a leading lighting product manufacturer in the market.

## MANAGEMENT DISCUSSION AND ANALYSIS

### (ii) Domestic Market

#### *PRC Market*

#### *Home Lighting Sector*

The outbreak of SARS in the first half of 2003 led to the postponement of some promotion plans and projects, which seriously affected the Group's development in the PRC domestic market. The Group maintained minimal business contact with customers during the outbreak. In addition, the PRC economy was affected by SARS and economic activities were seriously depressed. As a result, the Group's plan of developing the PRC market was delayed and the development of PRC market was worse-than-expected.

But the economy of each region showed a strong rebound after the SARS epidemic was abated in the second half of 2003. This led to a substantial increase in the Group's turnover by approximately 43% in the PRC market. For the year ended 31 December 2003, the number of franchised stores was 92 while it was 50 for the last year. The stores were all located in the advantageous and strategic areas in the first-and-second-tier cities that have higher consumption power in the PRC. Their geographically coverage comprises Beijing, Shanghai, Shenyang, Dalian, Tianjin, Wuhan, Hangzhou, Ningbo and Guangzhou. In future, the Group aims to open approximately 230 chain stores by the end of 2005. We believe that through the establishment of franchised stores, the Group is able to increase the market share in the PRC. Meanwhile, the Group has actively embarked on the implementation of a marketing and promotion plan in order to enhance the Group's brand image in the PRC market.

Currently, the Group has 4 distribution centres in Dongguan, Shanghai, Beijing and Chengdu, which provide good distribution services to the customers across the country. The main service scope of each distribution centre is as follows:

- Dongguan distribution centre: distributing to all customers in South China and Central China areas
- Shanghai distribution centre: distributing to all customers in East China area
- Beijing distribution centre: distributing to all customers in North China and Northeast China areas
- Chengdu distribution centre: distributing to all customers in Southwest China area

The Group will continuously adjust the quantity of inventory and distribution capacity of the distribution centres according to the state of development in order to cater for the different needs of customers. With the fast growing economy and steadily increasing average income, the rise in domestic consumers' expectations on the living standards and the design and functions of the lighting products will led to an increase in the demand for higher quality products. Armed with the Group's excellent product design and brilliant lighting technology, the Group has obvious competitive advantage and will be able to keep up with market trend to further penetrate the domestic market.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Lighting Project Sector*

The Group's Lighting Project Sector specializes in projects in relation to hotels, luxury residence, supermarket chain stores, shopping centres and other infrastructure construction projects, such as airport, tunnel, highway, etc. The Group achieved promising result in this aspect and has completed 15 projects in total during the Year.

During the Year, the Group has put efforts on laying all the groundwork for the full-fledged development of this tremendous market. The Group has set up 6 sales representative offices, which stretch across a total of 40 cities and built up an extensive sales network. This created a strong platform for the Group to develop business in lighting projects.

The Olympics Games and the World Expo will be held in 2008 and 2010 respectively. In recent years, the domestic economy has been growing fast with high speed of urbanization. These favourable factors have created new room for the Group's development and bolstered the Group's profit. The Group will strengthen its effort to develop the market of key construction projects, such as the projects of hotel, mega-store, building, road, airport and tunnel. The Group expects that these will generate substantial income for the Group in the future.

### *Commercial Lighting Sector*

During the Year, the Group's own brand name "Bright" commercial lighting products achieved remarkable improvement in turnover, recording a 58% increase. The goal of "Bright" can be divided into three aspects: provision of good quality products to different customers at low prices, promoting innovative and value-added products and offering customized professional lighting and decoration resolution to satisfy customers.

The Group will build up major dealer networks in each region and "Bright" flagship lighting store is expected to be set up in the first half of 2004. In addition, the Group will reinforce the promotion of commercial lighting consumption products in mega-stores and lighting fixture shopping malls to strengthen the Group's sales channel and hence increase the Group's income.

The Group will also focus on market promotion and launch a series of effective promotion strategies based on existing commercial lighting business. Since the construction of the building of headquarters in Shanghai will soon be completed, the Group will place great effort in promoting its brand and turn the building to a new landmark of Shanghai. We will strive to further strengthen the popularity of the "Bright" brand so as to generate effective promotional results.



## MANAGEMENT DISCUSSION AND ANALYSIS



### Production Facilities and Product Innovation

The Group has set up 6 production lines in the commercial lighting factory which is still under construction and these lines are expected to have an annual production capacity of 3 million sets. The commercial lighting factory has installed advanced and sophisticated machines, which will help the Group develop and produce high-end and more sophisticated and persistent commercial lighting products, increase profitability and continue to excel in its performance. Furthermore, in response to the launch of new commercial lighting products, the Group will construct the third phase of the complex commercial lighting factory as planned. For the year ended 31 December 2003, the Group developed 678 types of new products while the Group's target for 2004 is to develop 800 types of new products.

## MANAGEMENT DISCUSSION AND ANALYSIS

### PROSPECTS

The Group believes that prices of products will continue to face downward pressure due to increasingly fierce competition and prices of raw materials will continue to climb in the short term. The Group will take proactive measures to eliminate any negative factors that will affect the Group's profitability. As to product strategy, the Group will put more resources in the development and production of high value-added products. The products of the Group will be more preferred by consumers, given their high quality and excellent performance.

In the aspect of cost control, the Group will conduct market research to forecast market demand, closely monitor and maintain a reasonable level of inventory and raw materials purchases in order to cut unnecessary spending and improve cost-effectiveness. The Group will also make efforts to raise the capacity of production line and maximize the benefits brought by vertically integrated production. In addition, the Group will make use of the economies of scale to increase its bargaining power in negotiating for lower purchase prices. Currently, the Group is considering to purchase raw materials in cash in order to enjoy bigger discounts.

In marketing promotion aspect, the Group attended different lighting exhibitions across the world in the Year, including U.S. Dallas lighting show, German Frankfurt Lighting show, Hong Kong International lighting exhibition and the lighting shows in Taipei and Shenzhen. The Group will step up its efforts in promoting its brand, especially the enhancement of its brand image and domestic popularity after the completion of construction of its Shanghai headquarters and the establishment of its flagship store under the name of "Bright".

Looking forward, the Group will focus in developing PRC market and to launch products catering to local needs and to provide one-stop full range service in an effort to become a major lighting product provider in China. In light of the flourishing growth of the PRC economy and buoyant consumption demand, coupled with the global economic recovery, the Group is optimistic about the future prospects and confident in becoming the market leader as well as grasping potential opportunities in order to consolidate the Group's leading position in each market.

For the year 2004, the Group has formulated a series of strategies for the development of the core business in order to enhance the Group's profitability.

The Group will make efforts to streamline the organization structure and to raise the efficiency and production capacity of production facilities such as commercial lighting factory in an attempt to benefit from vertically integrated production lines and further cut operating costs. Meanwhile, the Group will conduct market research to forecast market demand, to closely monitor and maintain a reasonable level of inventory and raw material purchases in order to reduce unnecessary wastage.



## MANAGEMENT DISCUSSION AND ANALYSIS

As to the purchase of raw materials, the Group will continue to make use of the economies of scale to increase its bargaining power in negotiating for lower purchase prices. Provided that the Group has sufficient funds, the Group is considering cash transactions with some raw materials suppliers in order to enjoy bigger price discounts, as well as buying from nearby countries such as Taiwan to resolve the problem of shortage and high price of raw materials caused by the fast domestic economic growth in PRC. These measures will further reduce the production costs.

The Group will focus in developing potential markets and further diversify its products, with special emphasis on the development of specialty products and value-added products such as LED and solar lighting products and further promote the concept and significance of application of lighting on buildings, in a bid to enhance the Group's profitability. Meanwhile, the Group has appointed a famous American designer in support of the Group's development plan. The Group firmly believes that this action will enhance the Group's product design which will enable the Group to further cater to the local market's needs and increase choices for the Group's customers, and hence leading to better sales.

### Liquidity and financial resources

The internal cashflow generated by the Group is usually used as the working capital. As at 31 December 2003, the Group's cash on hand and bank balances totalled HK\$90 million with net current asset amounted to HK\$111 million. The Group had no long term or short term debt. No provision for bad debt was made during the Year. Generally speaking, the Group had a solid financial position which provides a good foundation for the Group's future business developments.

### Contingent liabilities

At 31 December 2003, the Group had no significant contingent liabilities.

### Charge on assets

At 31 December 2003, the Group had time deposits of HK\$8,219,000 pledged for general banking facilities granted to the Group. Except for the above, the Group has no other assets pledged as security for any debt or loan borrowings.

### Foreign Exchange and Currency Risks

The majority of the Group's account receivables and account payables were denominated in US dollars. Due to the fact that HK dollar is pegged to the US dollar, the Group is exposed to a very low currency risk. Also, during the Year, the Group has no hedging activity.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Employees and Remuneration Policy

As at 31 December 2003, the Group has approximately 2,100 employees (2002: approximately 1,800). We remunerate our employees based on their performance and the prevailing industry practices and the remuneration policy and package are reviewed by the Board on a periodical basis. Bonus and share options may be awarded to employees based on performance evaluation. These are drives and encouragements for personal performance. Up to now, no share option has been granted by the Group to its employees.

### DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

All information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange (<http://www.hkex.com.hk>) in due course.

### APPOINTMENT OF INDEPENDENT NON- EXECUTIVE DIRECTOR AND RESIGNATION OF NON-EXECUTIVE DIRECTOR

The Board is pleased to announce that Mr HSIAO Horng Ching has been appointed as an independent non-executive director of the Company with effect from 25 March 2004. The profile of Mr HSIAO Horng Ching will be set out in the Company's annual report for the year ended 31 December 2003.

The Board also announced that Mr CHEUNG Wai Hung, Boswell has resigned as a non-executive director of the Company with effect from 25 March 2004 for pursuing his personal interests. Taking this opportunity, the Board would like to thank Mr CHEUNG Wai Hung, Boswell and express its appreciation for his contribution and services to the Group.

By Order of the Board

**Hsu Chen Shen**

*Chairman*

Hong Kong, 25 March 2004