

Management Discussion and Analysis

EXPORT MARKETS

In 2004, the Group's performance in export markets was very impressive. Apart from the European market, which is pending for a strategic realignment, all other export markets, recorded a satisfactory growth and the results were encouraging. The Group had made significant effort to strengthen home lighting business, the Group's core business, and also made aggressive efforts to further develop the commercial lighting business in order to expand the Group's revenue base. Indeed, the steady growth in the Group's turnover derived from North American markets was mainly attributable to the impressive progress of the commercial lighting business. It also reflected the fact that the Group's business strategy for commercial lighting market started to take effect. On the other hand, the Phases II Factory Complex of the Group's commercial lighting factory has successively completed and commenced production, giving a further boost to the Group's production capacity for commercial lighting products. As the sales team and the newly established commercial lighting product team become more mature in operation, the enhanced production capacity and product diversity are expected to drive the growth of the commercial lighting business.

North American markets

During the Year under review, competition in the U.S. and Canadian markets remained intense. Such a backdrop, together with the rising prices of raw materials, led to an increase in the Group's production costs. Despite the hardship in the overall business environment, the Group managed to achieve a slight growth in turnover and gross profit margin from the U.S. and Canadian markets. It was due to the Group's success in cost reduction through the implementation of a number of cost control measures during the Year. Efforts were made to enhance the efficiency of its vertical integration of production model which improved its production management model and strictly controlled its expenses. In 2004, the Group's total turnover derived from these markets accounted for 88% of the Group's total turnover, which represented the major source of revenue of the Group.

- *Home lighting market*

The Group's home lighting business recorded a slight increase in turnover of 3% for the Year under review. Such increase was attributable to the continued vibrancy of the flourishing DIY chain retailing enterprises in North American markets, which triggered market demand. During the Year under review, there was a continuous growth in the number of orders placed from the existing and new customers, fuelling the Group's business development and a steady increase in its turnover.

The Group understands the importance of maintaining an edge in research and development in respect of new product development, reducing production costs and improving its business competitiveness. Therefore, during the Year under review, the Group made an aggressive effort to strengthen its capability in product research and development and focused its resources on developing energy saving and environmentally friendly lighting products in order to enhance the overall profit margin. In the future, the Group will continue to innovate more creative products to further improve its product mix. The Group's objective is to become the trend setter in home decoration by delivering one-stop quality services for its customers.



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- *Commercial lighting market*

During the Year under review, the Group's performance in the U.S. market was encouraging. Its turnover derived from the commercial lighting business recorded a satisfactory growth, laying down a new milestone in this business segment. During the Year under review, the Group's business performance in respect of hotel lighting projects was extremely outstanding. A number of hotel resort lighting projects were completed in Las Vegas and Boston, including Hard Rock Casino, Treasure Island and Intercontinental Hotel. The success in the projects completed during the Year improved the Group's reputation and visibility in the industry and laid down a solid platform to support its future business growth and more opportunities for business expansion.

In addition, the Group actively pursued to strengthen its partnership relationship with a leading hotel lighting design house in the U.S. in order to jointly extend the Group's business reach in the hotel chain lighting market. The design house is mainly engaged in undertaking design and decoration projects for hotels in the U.S. and its target customers are hotel chain groups in the U.S. The Group believes that cementing closer cooperation with the design house can enlarge the Group's market share in commercial lighting market and consolidating its business foundation in the U.S. market. Ultimately, the Group expects to receive a considerable stream of revenues from this business.

In order to increase the Group's competitiveness in the U.S. commercial lighting market, the Group set up a commercial lighting team during the Year under review. In particular, the Group employed an American commercial lighting expert to take advantage of his expertise in lighting technologies and his in-depth understanding of the U.S. market and customers to upgrade the Group's capability in product design and development in order to speed up the Group's pace of development and strengthen our profitability in the U.S. commercial lighting market.

European market

During the Year under review, there were personnel changes of a large-scale German DIY store which the Group has recently allied with. As a result, the Group's turnover derived from the European market decreased by 46% as compared with that of last year. At the same time, owing to the rising raw material prices, there was a general shift towards prudence in placing orders in the market. The result was a decline in the number of orders received by the Group and thus a less satisfactory performance during the Year.

In turn, in the second half of 2004, the Group made an aggressive effort to seek and did successfully form a partnership relationship with another agent in Europe. By the end of 2004, the Group has already started to receive orders from such agent. It is expected that the Group will generate remarkable revenues from this market in the future. Looking ahead, the Group will continue to identify acquisition targets among European importers and distributors with the suitable profile in order to expand the Group's sales channels and improve the Group's marketing capability in Europe so as to enhance its sales performance in this market.

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Asian market (exclude PRC market)

During the Year under review, the economic climate in Japan remained weak and a recovery of the business environment was still in waiting. However, given the years of marketing experience the Group accumulated in the Japanese market, the Group has already grasped hold of the market preference and quality requirements for lighting products in Japan. As such, the Group's turnover increased substantially by 50% during the Year.

In the future, the Group's research and development centre will continue to develop more innovative products with attractive designs in line with the preferences of the Japanese market in order to increase the Group's turnover derived from this market and enlarge its market share in the Japanese market. On the other hand, the stringent cost control measures implemented by the Group has already started to take effect during the Year. The performance on this front is expected to be more remarkable in the coming years. As its production costs continue to fall, the Group is likely to see improvement in its competitiveness and overall results in Japanese market in the future.

For Taiwan market, owing to vehement competition in the DIY market, manufacturers were vying to drive their sales by cutting prices. As a result, there was a drastic decrease in selling prices and a corresponding downward adjustment in profit margins. In addition, the State Administration for the Inspection of Import and Export Commodities has tightened their safety standards on imported products in recent years, which indirectly increased the costs of the Group. As a result, the profit of the Group derived from this market for the Year under review was not as good as expected.

Although the Group's performance in the Taiwan market was disappointing, the Group has established sound relationships with customers in this market. In particular, the Group has started to supply goods to a Taiwanese customer's large-scale department stores in Shanghai and Beijing. It is expected that the turnover derived from this market will increase in the coming years.

PRC MARKET

During the Year under review, the Group actively sought to expand its domestic operation in PRC to drive the growth of its commercial lighting business. The result was more than satisfactory. Owing to the strength of the PRC market, the Group's turnover derived from this market upsurged by 103%. This was primarily due to the fact that the Group's PRC headquarters in Shanghai had already commenced service during the Year. Such development has effectively strengthened the marketing strength of the Group. During the Year, the Group was devoted to the expansion of its sales network and strengthening the promotion of the Group's own brand "Bright" and "Bright Your Home". Efforts were also made to enhance its design and development capability. Besides, Phases II of the Group's commercial lighting factory in Dongguan commenced operation during the Year, leading to further enhancement of the Group's production capacity. As a result of the above, the Group registered a substantial growth in PRC domestic market. The rapid development of the Group's commercial lighting business meant that the Group has extended its dominance beyond the home lighting market and has developed into a one-stop 360° all round supplier of all sorts of lighting products.



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Home lighting division

The Group's franchise stores in the PRC market mainly sell the products under our own brands "Bright" and "Bright Your Home". As at 31 December 2004, the Group had 130 franchise stores, as compared with 101 stores last year. In other words, the Group's nationwide business network further expanded. At the same time, the Group actively adjusted the inventory and distribution capacity of its distribution centres to meet the needs of different customers. Currently, the Group has 4 distribution centres which are located in Dongguan, Shanghai, Beijing and Chengdu, respectively, forming a comprehensive distribution network to satisfy the needs of the Group's nationwide customers.

As the Group's PRC headquarters and product development centre in Shanghai are becoming full-fledged, the benefits are being felt. During the Year under review, the Group further broadened its product mix and substantially enhanced its penetration in the PRC market. In recent years, the economic climate in the PRC has sustained its boom and the income per capita of its population has continued to increase. Under this backdrop, general living standards are on the rise and consumers become more demanding on the design and functions of lighting products. In view of this, the Group will strive to enhance its product quality and innovate more attractive new designs to capture the massive market demand and develop into a leading manufacturer in the lighting market.

Lighting projects division

During the Year under review, the Group's lighting project business grew steadily and a satisfactory result was noted. During the Year under review, the Group completed around 50 projects (including the Rongzunbao Apartment and the Wangfujing Department Stores Building in Beijing and the Chengyang Maocheng in Qingdao) and 16 projects are still in progress which will have contribution to the Group when completed.

During the Year under review, the PRC government implemented a series of austere measures in a bid to ensure the steady growth of the PRC economy and to suppress the overheated property investment activities. Performance of lighting project businesses targeted at the PRC property market was affected as a result. However, given the outstanding performance of the Group in the hotel, supermarket and shopping arcade segments, the impact of the austere measures on the lighting project business of the Group was minimal.

In addition, owing to the nationwide energy shortage in PRC, the PRC Government is actively promoting the idea of green lighting and energy saving. Against this backdrop, many small-scale lighting businesses with inferior capability and technological backup are losing their core competitiveness. During the Year, the Group's product research and development centre continued to deliver new products with high value-added features and energy saving or environmentally friendly functions to catch up with market demand. Leveraging on its high-calibre teamwork and outstanding research and development capability, the Group will keep on developing new products to stay in line with market trends towards energy saving and environmentally friendliness.

The upcoming 2008 Olympic Games in Beijing and 2010 World Expo in Shanghai, together with the continued rapid growth of the PRC economy and the trend of increasing urbanisation in the PRC, driving the number of infrastructure projects in the PRC to increase. Besides, there are also signs indicating a rapid increase in the number of amenity projects at the municipal level. All these are pointing towards room for development and a promising prospect for the Group's lighting project business.

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Commercial lighting division

During the Year under review, the Group's commercial lighting products sold in PRC market under its own brand "Bright" recorded satisfactory results with an increase in turnover of 15% as compared with last year. "Bright" offers products with high creativity, high value-added features and high value for money. Besides, the Group also provides customised professional lighting solutions for its customers.

In 2004, the Group continued to step up its marketing efforts in home and commercial lighting products through different sales channels such as hypermarkets and lighting malls. At the same time, the Group also strove to expand its sales network, mainly in those regions with higher consuming power in the eastern, southern, northern and south-western parts in PRC. Efforts were made to enhance the Group's penetration into the PRC market to further consolidate its business foundation and enhance its profitability.

PROSPECTS

Looking forward, it is expected that market competition will remain fierce and raw material prices are likely to stay high. Therefore, profit margins will probably continue to be under pressure. In view of this, the Group will adopt more aggressive policies to tighten its cost control in order to maintain its profitability and competitiveness. In respect of product strategy, the Group will allocate more resources to develop and manufacture more value-added products.

The Group will strive to enhance its product design and development. In particular, it will focus its efforts on developing lighting products targeted at the specific needs of different markets in order to strengthen its product design, product quality and economic benefits. Besides, in order to expand its source of revenues, the Group will establish distribution nodes in different regions to enhance its sales channels. Besides, it will also step up its efforts on marketing home and commercial lighting products and delivering professional and quality products to expand its share of the commercial lighting market.

On the other hand, the Group will seek to increase its brand awareness by actively organising product reviews and placing advertisements in leading outdoor and indoor decoration magazines. In particular, the Group will publish the "Bright Your Home" magazine on a regular basis and develop a website specifically for this brand. In respect of the lighting project business, the Group will step up its efforts on securing more businesses from large-scale projects, such as those relating to hotels, departments stores, commercial complexes, highways, tunnels and airports, in order to consolidate its leadership in the market.

In the future, the Group will continue to focus its efforts on developing the commercial lighting business and the PRC market. The steadily growth of the economy in PRC, with its increasing demand on urbanisation and the rising purchasing power of its population, is expected to be a powerful growth driver to the Group. Amid this favourable business environment, the Group will work with its best endeavour, as in the past, to deliver one-stop all-round services to its customers and take advantage of the market opportunities ahead so as to lay another milestone in its corporate history and develop into a major supplier of lighting products in the PRC.



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LIQUIDITY AND FINANCIAL RESOURCES

The internal cashflow generated by the Group is usually used as the working capital. As at 31 December 2004, the Group's cash on hand and bank balances totalled HK\$91,848,000 with net current assets amounted to HK\$117,161,000. The Group had no long term or short term debt. Provision for doubtful debts in the amount of HK\$2,500,000 was made during the Year (2003: Nil). Generally speaking, the Group had a solid financial position which provides a good foundation for the Group's future business developments.

CONTINGENT LIABILITIES

At the balance sheet date, the Group had no significant contingent liabilities.

CHARGE ON ASSETS

At 31 December 2004, the Group had time deposits of HK\$8,219,000 and leasehold land and buildings with a net book value of approximately HK\$34,000,000 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.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2004, the Group has approximately 2,000 employees (2003: approximately 2,100). 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.

POST BALANCE SHEET EVENT

On 31 January 2005, the Group acquired a 100% interest in R.A.M. Lighting Ltd., in Toronto, Canada, which is engaged in the design and distribution of decorative residential lighting products for a cash consideration of US\$3,700,000, which will be settled in three instalments from 31 January 2005 to 31 January 2006. For details of such acquisition, please refer to the Company's circular dated 24 February 2005.

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CHANGES OF COMPANY SECRETARY

The Board announces that Ms. LO Yee Har Susan ("Ms. LO") will resign as the secretary of the Company with effect from 1 April 2005 for personal reason and that Mr. TSANG Yuk Yan Nicol, the qualified accountant of the Company, will be appointed as the secretary of the Company to fill the said vacancy on the same date.

Taking this opportunity, the Board would like to express its appreciation and gratitude to Ms. LO for her contribution and services to the Company in the past.

By Order of the Board

HSU Chen Shen

Chairman

Hong Kong, 31 March 2005



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