



Management Discussion and Analysis

During the year under review, it was still a challenging year for the Group. The turnover and profit in the first half of 2006 recorded a satisfactory increase as compared to the corresponding period of last year. However, in the second half of 2006, due to the slowdown of the economy and property market of US, being the Group's major market, the Group was unable to achieve its target of orders received for such period. In addition, the continuous appreciation of Renminbi ("RMB") led to a rise in labour costs and besides, the raw material costs remained at high level during the year under review. All these additional operational challenges brought forth tremendous pressure on the Group's profitability. During the year under review, the Group continued to develop new products in addition to its efforts in implementing stringent cost control measures, which successfully helped the Group achieving a steady growth in its overall results. The Group's total turnover for the year ended 31 December 2006 was approximately HK\$806,413,000, representing an increase of approximately 4% as compared to last year. Profit for the year increased by approximately 15% to reach HK\$55,325,000. During the year under review, gross profit margin was maintained at approximately 27%, a similar level as compared to last year. Basic earnings per share amounted to HK11.3 cents, representing an increase of approximately 15% as compared to last year.

Facing the challenging business environment, the Group adopted a pragmatic approach to enhance its production efficiency and strengthen cost control by implementing various measures. The Group proactively improved its production facilities by adding various automatic production equipments as well as uplifting the operational standard so as to improve its production efficiency. The Group also endeavored to reduce the production cost by enhancing the existing product structure, introducing innovative packaging methods as well as streamlining the current production process. Meanwhile, the Group encouraged its staff to suggest ways of improvement and cost reduction measures by offering appropriate incentives. Through such measure, cost reduction and enhancement of production efficiency became the common goal of all staff. With its concentrated exertions in enhancing quality control management, the Group established the abnormality analysis team, which was responsible for statistical analysis and evaluation on the loss incurred by various defective products and abnormal situations, and the implementation of preventive and refining measures to minimize loss and enhance product quality.

Apart from increasing profit through cost control measures, the Group also proactively adjusted sales strategies and its product portfolio, employed innovative designs and developed new high value-added products, with an aim of broadening the customers base of mid-to-high end market and increasing the Group's profit margin.





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Export Markets

Home Decorative Lighting Division

During the year under review, the home decorative lighting business remained as the major income source of the Group and achieved steady performance. Turnover amounted to approximately HK\$730,455,000, an increase of approximately 3% as compared to last year.

In 2006, the slowdown of the US economy and property market brought forth a certain adverse impact on the demand of home decorative lighting products. The appreciation of RMB increased the costs of overseas customers, resulted in a more prudent manner in placing orders. To reduce these negative impacts, the Group regularly participate in various international lighting exhibitions worldwide so as to capture market dynamics. In the purposes of enhancing competitive edge and marginal profitability, the Group employed and retained local lighting designers to further diversify its product range and meet different customers' needs by improving its product portfolio and continuing its effort in new products development.

During the year under review, the Group assisted its major customers in the North American market and also actively expanded into other overseas markets such as Mexico and Canada in order to boost sales. While actively exploring the enormous potential of the North American market, the Group was also proactively strengthening the fundamentals of its businesses in other overseas markets, with an aim to maintaining a sound and healthy development of its business operations in European and Japanese

markets. As a result, despite intensified market competition of the home decorative lighting export market, turnover of the Group during the year ended 31 December 2006 was in line with that of the previous year.

Commercial and Lighting Project Division

During the year under review, the development of the Group's commercial lighting team and products became mature and achieved encouraging performance. Commercial lighting and hotel lighting project division for overseas markets reported a turnover in the amount of approximately HK\$43,950,000, representing an increase of approximately 66% as compared with last year. The enhancement of the Group's competitiveness in this market is mainly due to the impressive results in product development and completed projects.

The Group actively took part in various international lighting exhibitions worldwide to introduce its commercial lighting products which have been well accepted by the market. This helped expanding the Group's market of hotel lighting project section. During the year under review, the Group completed many hotel lighting projects, which included several famous hotel chain groups such as Hilton, Marriott, Radisson, Hyatt and Sheraton. In addition, the Group was also engaged in several lighting projects of Link REIT's shopping centers in Hong Kong. Currently, customers from North America, Europe, the Middle-East, Macau and Hong Kong were interested in the commercial lighting products and hotel lighting project business of the Group, some of them have



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even confirmed their orders. The results of the Middle-East market were particularly outstanding with a number of hotel lighting projects now under negotiation. The Group has already obtained the safety requirement certifications for most of its products and will continuously launch more innovative commercial lighting products in the market. The Group expects that this division will contribute positive results to the Group in the near future.

PRC Market

During the year under review, the results of PRC domestic market was not satisfactory as re-engineering was still underway, but the situation was improving gradually. The overall turnover of the PRC market was approximately HK\$32,010,000, decreased by approximately 23% as compared with last year.

Home Decorative Lighting Division (Franchised Chain Stores System)

During the year under review, the Group's home decorative lighting business promoting the Group's own brand "Bright Your Home" recorded a turnover of approximately HK\$21,247,000, representing an increase of approximately 21% as compared to last year. The Group proactively improved the management of domestic business through enhancing the franchised chain stores operation by cracking down on those violating market disciplines, infringing rights and breaching the Group's regulation on franchised chain stores system, which was aimed at bringing the business towards healthy growth, safeguarding the franchised chain stores system and protecting the interests of the Group and ultimately strengthening the foundation of the proper development of domestic business. During the year under review, the Group devoted much effort in improving and optimizing the franchised chain stores operation and enhancing the Group's brand awareness by various marketing initiatives, thereby attracting more potential and quality franchisees to join the system under the Group's cautious selection basis.

As at 31 December 2006, the Group maintained 155 franchised chain stores, which remained at a similar level as compared to last year. The Group adopts more stringent measures when assessing applications of the franchisees in order to minimize risk exposure of the Group. The Group also closely monitors the location of new franchised chain stores so as to control the number of stores in each district to an optimal level and to avoid fierce competition among the franchisees. The Group has gained years of experience in developing the franchised chain stores and building up the brand name. In order to protect the Group's interests, the Group started getting security deposits of franchised chain stores from the franchisees during the year. On top of safeguarding the interests of quality franchisees, such measures also protects continuous development of the Group's franchised chain stores operation in the long-run.

The appreciation of RMB is expected to propel the prosperous development of the PRC property market and attract investment fund continuously, which will be favourable to the expansion of the franchised chain stores business.

Commercial and Lighting Project Division

During the year under review, the Group completed many commercial lighting projects in PRC, which mainly included large foreign invested supermarkets chain stores and department stores. For the year under review, the number of lighting projects decreased and turnover only recorded an amount of approximately HK\$10,763,000, which represented a decrease of approximately 35% as compared with last year. In view of the difficulties in recovering account receivables from commercial lighting project business in PRC, the Group adopted prudent measures towards business expansion, which resulted in a drop in the number of new lighting projects engaged. However, the Group is confident that, by careful selection of lighting projects, tightened examination on customers' credibility and strengthening our business relationship with valued customers, commercial lighting project business in the PRC market is expected to grow steadily.



Fast approaching of 2008 Beijing Olympics, Asian Game Guangzhou and Shanghai World Expo in 2010 are expected to bring tremendous business opportunities for the development of lighting projects in the PRC. Besides improving the Group's operational efficiency and delivery capability, the Group also engaged actively in new product research and development and brand enhancement of "Bright". The overall competitiveness of the commercial lighting projects of the Group in the PRC market is thus reinforced. The Group is dedicated to capture the emerging business opportunities in building a solid foundation for the future business development of the Group.

Prospects

Looking ahead, the Group's business growth, which is achieved by market expansion and enhancement of production capacity, will be the driving force for its development. The franchised chain stores system and commercial lighting projects will be the main drive of growth of the Group in the future. Although the prices of raw materials are expected to remain at a relatively high level and add pressure to the Group's production costs, the Group will continue to implement stringent cost control and optimization of production flow measures and improve internal operations and the production process, with an aim to enhance the overall profitability and competitiveness of the Group to solid the foundation of the Group in the long-run.

For export market, the Group will devote to the development and design of more innovative and high value-added products for further improving existing product mix and diversifying product range so as to attract more new and quality customers. At the end of 2006, many new products originally developed by the Group were selected by the major customers. Such new products will be included in the 2007 sales plan of such major customers. The Group believed that this will bring positive results for the turnover of home decorative lighting division in 2007.

In the PRC market, the Group will continue to implement the strategy of franchised chain stores system, improve logistic centers and supply chain facilities and to provide a more comprehensive support for its franchisees. For the commercial lighting project business, many large foreign supermarkets chains, hypermarket chains and department stores have recently established their footprints in the PRC market by ways of opening own new stores or through acquisition of PRC enterprises of same type. In order to enhance their corporate image and maintain the standardization of the layout of their chain stores, most of them will carry out certain level of renovation which will be a huge business opportunity for the commercial lighting projects. The Group understands that these foreign investors pursue high quality of products and the margin profits generated from these customers will relatively be higher. Thus, the Group will focus on these demanding target customers and offered high quality lighting products so as to enhance the Group's domestic market in the PRC. The Group will strengthen staff training and improve their professional expertise in commercial lighting projects in order to provide customers with professional and qualitative lighting solutions.

The Group is highly confident with its future development. By leveraging on the Group's extensive sales network, comprehensive distribution channels, strong and established production capacity, efficient marketing strategy and diversified product portfolio, the Group manages to overcome business and operations difficulties and has dedicated to become a one-stop 360° supplier of lighting products.