

Management Discussion and Analysis

EXPORT MARKETS



Export Markets

North American Market

Despite facing unfavorable market conditions, including keen competition and escalating raw material prices due to high oil prices, the Group still managed to achieve a steady growth in turnover from the North American market by leveraging on the implementation of a series of effective cost control measures. The Canadian market, in particular, recorded an impressive growth of three times in turnover, which was mainly due to strategic mergers and acquisitions with remarkable results. In 2005, the North American market remained as the Group's key markets and major sources of revenue, accounting for 89% of the Group's total turnover.

Management Discussion and Analysis

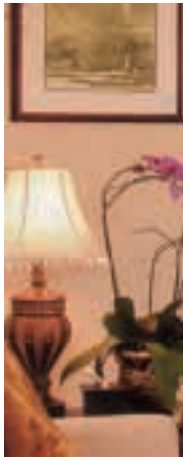


Home Lighting Division

During the Year under review, the Group's home lighting business recorded a steady increase of 7% in turnover. Such increase was attributable to the flourishing DIY retail chained enterprises in the North American market. As a result, orders from existing and new customers continued to increase, which in turn expedited the growth in the Group's turnover. However, high raw materials prices imposed tremendous pressure on gross profit margin. As the Group was unable to fully transfer the increase in raw material costs to its customers, the Group's overall profitability was affected.

During the Year, the Group acquired the entire issued share capital of R.A.M. Lighting Ltd ("R.A.M.") at a consideration of US\$3.57 million. R.A.M. is a reputable enterprise in Canada principally engaged in the design and distribution of decorative home lighting products. Through this acquisition, the Group successfully included the renowned Canadian brand of "R.A.M. Lighting" in its brand portfolio. The products of R.A.M. mainly include high-end decorative lighting products, such as the Tiffany series, which can further improve the Group's product mix.

Besides, R.A.M. has established a sound business network in Canada. The acquisition provides the Group with a golden opportunity to further extend its sales network in North America, so as to strengthen the Group's marketing and sales capability in the North American market. Meanwhile, R.A.M. has its own product design and development team and a stable source of orders, which will enable the Group to broaden its client base and enhance its profitability. Capitalizing on the acquisition, together with the implementation of a number of cost control measures, including the strengthening of vertical integrated production model, improvements in production management model and imposing stringent control on all expenses, the Group effectively lowered its costs and maintained stable turnover and profit growth in the North American market.



To consolidate its leading edges in research and development, the Group strengthened its efforts in enhancing product research and development, focused on developing energy saving and environmental friendly lighting products and designed more innovative products during the Year, in order to further improve its product mix and provide its customers with quality one-stop services.

Management Discussion and Analysis



Commercial Lighting Division

During the Year under review, performance of the Group's commercial lighting division in export markets was impressive. Turnover amounted to HK\$26,400,000, representing a 73% increase as compared with that of the last year. During the year, the slow approval process of the safety requirement certification in the U.S. led to the deferred launch of part of the Group's new commercial lighting products, which affected the Group's business performance in the U.S. However, the Group completed a number of hotel lighting projects, including Panorama Condos Hotel in Las Vegas, Marriot Grande Vista Hotel in Texas and Imperial Palace Hotel in Mississippi.

To strengthen the competitiveness in the U.S. commercial lighting market, the Group proactively developed its commercial lighting team, with an aim of improving the overall capabilities in production development, design and sales. With the completion of applications for safety requirement certifications of the major commercial lighting products, the Group is confident of capturing the enormous potential of the commercial lighting market and exploring more business opportunities.

European Market

During the Year under review, the European market witnessed a significant growth in turnover of approximately 42% as compared with that of last year. The impressive growth was mainly attributable to the increase in the orders for commercial lighting products. Furthermore, the European market showed signs of a turnaround, which fuelled the growth in the Group's turnover. In addition, regarding the European market, the Group enhanced its collaboration with a North European lighting wholesaler, to develop a variety of fluorescent lamps and energy-saving commercial lighting products, and achieved satisfactory results. This enabled the Group to attain promising results in the commercial lighting market in the European Market.

Management Discussion and Analysis

Japanese Market

The Group's business performance remained stable in the Japanese market and achieved a slight increase of approximately 2%. With the economic rebound in Japan, it is expected that the Group will record even better results in the forthcoming year.

To further develop the immensely potential Japanese markets, the Group's research and development center will endeavor to develop more exquisite, innovative and creative products to cater for the market needs in Japan, with a view to stimulating sales performance and enhancing the results and profit contribution from this market.

PRC Market

During the Year under review, the Group continued to adjust, consolidate and proactively develop the PRC market, and established the Bright Lighting Application Center (the "Lighting Center") and "Bright" flagship chain franchise stores in Shanghai, which were opened in August 2005. The Lighting Center comprises exhibition areas for different products, light contrast zones, light museum and designer club. The Group's 152 chain franchise stores utilize the Lighting Center as the sample exhibition center.

By a number of spot lighting demonstrations for customers in the Lighting Center, the Group illustrated the lighting applications for various environments as well as the method and importance of proper application of lighting design in specific settings. In addition, the lighting museum in the Lighting Center shows the development history of "light" to customers by demonstrating the invention of the first bulb in the world to the most up-to-date lighting technology.

With the establishment of the Lighting Center, the Group expects to facilitate its communication with the public, so as to widely apply lighting solutions and bring lighting products to the daily life. Meanwhile, the Lighting Center will further enhance the Group's communication with customers, strengthen the research and development capability and improve the product design, which enable the Group to keep abreast of customer preference. Moreover, the Group will design and produce more quality and innovative lighting products to propel future business growth and profitability.

Home Lighting Division

Along with the vigorous Chinese economy, both income per capita and living standard improved. Customer demand for mid-end to high-end lighting products continued to grow. In order to satisfy different customer needs, the Group proactively adjusted the inventory and delivery capability of the distribution center. The Group has set up distribution centers in four major cities, Dongguan, Shanghai, Beijing and Chengdu, providing comprehensive delivery services to customers spanning nationwide. While improving the operational efficiency and strengthening the distribution capability, the Group further enriched its product mix, so as to enhance the market penetration in the PRC and provide a solid foundation for future growth.

Commercial Lighting Project Division

During the Year under review, the Group's commercial lighting project business achieved a steady development and completed over 45 commercial lighting projects, which included San Zheng Ban Shan Hotel in Guangdong, International Agricultural Exhibition Center in Qingdao, Zhong Ya Hotel in Lou Yang, Tan Gong villa development in Shanghai, Rongzunbao Apartment in Beijing, Fengtai Garden Hotel in Humen, Luoma City Landscape in Xi'an and Qingpu Qiaoyang Bay Landscape in Shanghai.

Management Discussion and Analysis

With the forthcoming 2008 Beijing Olympic Games and 2010 Shanghai World Expo, coupled with robust economic growth in the PRC and increasing urbanization, it is expected that a booming market demand of commercial lighting projects will soon arise. Meanwhile, the number of infrastructure projects in the PRC continued to surge and the number of urban projects also demonstrates a rapid growth trend, creating ample room for development of the Group's commercial lighting project business. The Group will continue to develop high value-added and innovative lighting products, including environmental friendly lighting products with energy-saving function, with a view to enhancing product competitiveness, seizing arising business opportunities and fortifying the Group's business strength in the PRC market.

Through the diversified sales and marketing channels, the Group will further promote the brand awareness of "Bright" and continue to provide its customers with comprehensive and efficient services and solutions, in order to achieve new business heights.

Prospects

Looking ahead, given the intensified market competition and high raw materials cost, the Group will adopt more ambitious measures to streamline its corporate structure, control the cost stringently and maintain its profitability and competitiveness.

In respect of product strategy, the Group will put more resources to develop and produce high value-added products. The Group will continue to focus on improving product design as well as research and development capability and develop diversified light products that cater to different market needs, so as to optimize product quality and economies of scale.

Moreover, the Group will establish a distributor network in the PRC and reinforce the promotion of "Bright" branded products so as to strengthen the Group's sales channels and broaden its income stream. Meanwhile, the Group will keep a close eye on seeking appropriate opportunities for mergers and acquisitions to expand its client base and increase its market share in the PRC through strategic acquisition.

For the commercial lighting project business, in view of higher market requirement, the Group will consolidate its business foundation and emphasize the enhancement of internal strength, including the strengthening of staff training, improvements in professional expertise for commercial lighting project management and upgrading of the quality of technological personnel, aiming at satisfying customer demand and further exploring business opportunities.

Amidst the burgeoning economy and the immense potential of the PRC market, the Group will continue to focus on developing commercial lighting business and exploring the market in the PRC. By leveraging on its extensive business network, potential production capability, effective sales and marketing strategies and diversified product mix, the Group is committed to becoming a one-stop 360° supplier of lighting products.