Management Discussion and Analysis

REVIEW OF RESULTS

The Group's consolidated turnover for year 2005 was HK$1,161,200,000 (2004: HK$1,135,700,000), increased 2% as compared to that of year 2004. Average gross profit margin was maintained at 34%, at the similar level of that of year 2004.

Loss attributable to shareholders for year 2005 amounted to HK$16,700,000 (2004: profit of HK$6,400,000). The major reasons for the loss were:

1. the increase of costs of the industrial raw materials during the period under review;

2. re-structuring of the Group's operations as well as subsidiaries; and

3. disposal of the overseas subsidiary.

For year 2005, the United States and Europe remained the Group's largest markets.

The Group's sales to the United States increased 5% to HK$723,600,000 (2004: HK$690,700,000), representing 62% (2004: 61%) of the Group's total turnover.

The Group's sales to Europe decreased 6% to HK$292,100,000 (2004: HK$311,300,000), representing 25% (2004: 27%) of the Group's total turnover.

OVERVIEW OF DISTRIBUTION NETWORK

Silk Road Gifts, Inc. (USA)

During the period under review, the company continued the development of the giftware market in the United States. It has secured the orders from different long-term customers.

In addition, the company has played an important role for the Group's research and development of plastic and candles products. It has brought the advanced technology to our manufacturing plants in PRC and candle factory in Vietnam and enhanced the product development.

Peaktop Technologies (USA) Hong Kong Limited (Hong Kong)

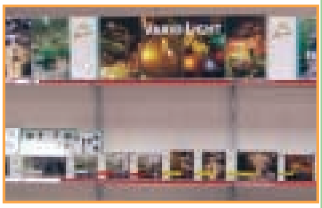
During the period under review, the company recorded a significant increase of turnover. The turnover amounted to HK$316,600,000 (2004: HK$166,300,000), representing a significant increase of 90% as compared with the corresponding period in 2004.

The significant increase was mainly due to the large quantity of the sales orders from the major home and gardening chain stores in the United States, namely Lowe's Stores, Wal-mart, and Target Stores.

Heissner AG (Germany)

On 28 March 2006, the Group signed the Sales and Purchase Agreement and other relevant agreements with a German investment company. It was agreed that 81% of the shares of Heissner AG would be transferred to the investment company after the shareholders' approval is obtained ("Closing of the Transaction"). The Closing of the Transaction is expected to be obtained within the next few months.

Based on the management's estimation and the forecasted performance of Heissner AG, the consideration for the 81% shares is likely to be between Euro2,000,000 and Euro2,500,000. The Group has suffered an impairment loss of HK$1,800,000, and the loss was provided in 2005. The impairment loss does not include any other loss and expense that the Group has absorbed for the disposal.

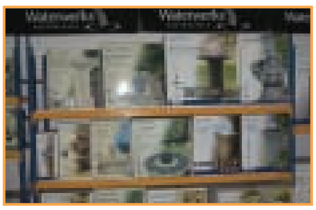


According to the signed Supply Agreement, Heissner AG has accepted a credit limit of US$4,000,000 and 180 days' payment term in the first year after Closing of the Transaction. When the outstanding amount is above the credit limit or past due, Heissner AG has agreed to settle the excess or past due amount immediately. Before July 2010, the credit amount and payment term will gradually be reduced to US$2,000,000 and 90 days respectively.

As at 31 March 2006, Heissner AG had an outstanding balance to the Group of HK$59,500,000, of which HK$26,600,000 was overdue. According to the signed agreements, the investment company will inject Euro500,000 as working capital into the company before Closing of the Transaction and Euro2,200,000 when Closing of the Transaction. Together with the additional banking facilities, the management is confident that the cashflow is sufficient to cover the payments of overdue amounts to the Group when Closing of the Transaction. The management anticipates that the Group will receive a minimum of US$4,000,000 outstanding balance from Heissner AG when Closing of the Transaction.

Waterwerks Pty. Ltd. (Australia)

During the period under review, the company continued the development of the gardening and water gardening markets in Australia and New Zealand.



FINANCIAL AND MANAGEMENT REVIEW

Cost Control

During the period under review, the increase of the cost of the industrial raw materials has adversely affected the Group. The quotation did not truly reflect the cost increases; therefore, the Group's profitability could not meet the expectation.

After recent negotiations with the major customers, the Group has successfully transferred part of the cost increases to them and reduced the adverse impact. The management expects that the Group's profitability will improve in 2006.

Selling, General and Administrative and Other Operating Expenses

Total selling expenses of the Group in year 2005 was HK$256,800,000 (2004: HK$205,800,000), representing 22% (2004: 18%) of the total turnover. The major reason for the increase in selling expenses was the increase in the commission expenses that were paid for the gardening and water gardening orders in the U.S. market.

Despite of the increase of total turnover, total general and administrative expenses of the Group for year 2005 was HK$147,300,000, decreased 4% as compared to that of year 2004 (2004: HK$153,200,000), representing 13% on total turnover which is the same as the year of 2004.

Other operating expenses of the Group in year 2005 was HK$5,000,000, decreased 54% as compared to that of year 2004 (2004: HK$10,800,000), mainly consisting of the impairment loss on the disposal of Heissner AG and a provision for bad debts for accounts receivable.

Change in Fair Value of Investment Properties

The change arose from the appreciation of the value of the office premises, located in Hong Kong, held by the Group. The premises have been rent to the independent third parties at the market rates and generated a steady rental income.

Liquidity, Financial Resources and Finance Costs

The Group finances its operations with internally generated cash flows and banking facilities. As at 31 December 2005, the Group had aggregate available banking facilities, excluding amount reclassified to a disposal group classified as held for sale in the current year, of HK$500,400,000 (2004: HK$486,500,000), of which HK$414,100,000 (2004: HK$411,300,000) was utilized and subject to floating market rates. The Group's cash and bank balance at that date, excluding amount reclassified to a disposal group classified as held for sale in the current year, amounted to HK$44,900,000 (2004: HK$69,300,000), denominated in United States dollars, Hong Kong dollars, Euros and Renminbi. This together with unutilized banking facilities will enable the Group to fund its operational needs.

As at 31 December 2005, the Group's current ratio and quick ratio were 88% (2004: 91%) and 54% (2004: 47%) respectively. At that date, the Group's total borrowing, excluding amount reclassified to a disposal group classified as held for sale in the current year, was reduced from HK$375,400,000 as at 31 December 2004 to HK$333,400,000, which included short-term borrowing and long-term borrowing of HK$322,400,000 (2004: HK$291,600,000) and HK$11,000,000 (2004: HK$83,800,000) respectively. The decrease in total borrowing was due to the disposal of Heissner AG, which had a bank borrowing of HK$96,800,000 (2004: HK$113,000,000) as at 31 December 2005. As at 31 December 2005, the Group's gearing ratio, defined as total borrowing as percentage of total assets, was reduced from 42% as at 31 December 2004 to 36%.

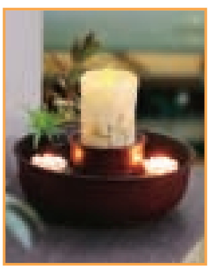
Total finance costs incurred by the Group in year 2005 was HK$28,500,000 (2004: HK$21,800,000). The increase was due to the increase of trade financing activities and interest rates. The Group continues to implement prudent financing policy to reduce short-term borrowing as far as possible in order to ensure that the Group will not be affected by short-term uncertainties.

Capital Expenditure

The Group incurred a total capital expenditure of HK$57,900,000 (2004: HK$92,900,000) in year 2005, which included HK$10,714,000 (2004: HK$39,400,000) for expanding the manufacturing plants in the PRC, HK$6,852,000 (2004: HK$19,300,000) and HK$28,186,000 (2004: Nil) for acquiring moulds; machinery and equipment in the PRC and Vietnam, respectively, and HK$12,148,000 (2004: HK$34,200,000) for acquiring other fixed assets.

Shareholders' Loans, Placement of New Shares and Director's Loan

On 29 March 2005, the Company entered into three new loan agreements with each of Mr. Lin Chun Kuei, Mr. Ng Kin Nam and Mr. Andree Halim (the "Lenders"), pursuant to which each of them has agreed to lend a sum of approximately HK$5,900,000 to the Company (the "Shareholders' Loans"). On 18 May 2005, the Company entered into the capitalisation of loan agreements with each of the Lenders, pursuant to which each of them agreed to subscribe for approximately 42,100,000 shares of the Company in cash at a subscription price of HK$0.139 per share. The subscription price payable by each of the Lenders was satisfied by capitalizing the entire amount of the Shareholders' Loans. The transactions had been sought to the shareholders' approval in the special general meeting of the Company held on 30 June 2005. The approval from the Stock Exchange for listing of, and permission to deal in the subscribed shares was obtained on 5 July 2005 and the subscription of shares were issued and allotted on 5 July 2005.



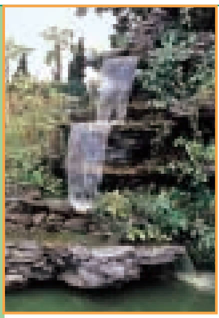
On 28 December 2005, the Group borrowed an amount of HK$2,300,000 from the director and repaid the full amount on 8 March 2006. The loan was unsecured and interest-free.

Foreign Exchange Exposure

For the year 2005, the Group's major revenue was denominated in the United States dollars and Euros, while banking facilities repayment and purchase were made essentially in the corresponding currencies and Renminbi, thus establishing a natural hedge. During the year under review, the Group was exposed to certain risks of exchange fluctuations. To further reduce exchange risks, the Group will consider to utilize foreign exchange hedging tools and will continue to closely monitor exchange rate movements.

Impact of the Revaluation of Renminbi

All of the Group's sales are denominated in either United States dollars or Euros or Australian dollars while some of the Groups' purchases are denominated in Renminbi. As at 31 December 2005, the Group had an outstanding balance of accounts payable, trust receipt loans and bank loans, denominated in Renminbi, for HK$29,400,000, HK$11,100,000 and HK$75,500,000 respectively. The fluctuation of Renminbi exchange rate has affected the business operations of the Group. During the period under review, the appreciation of Renminbi has caused slightly adverse effect on the current operating results and financial position of the Group. To reduce the possible impact in the future, the Group has negotiated to reduce the bank borrowing facilities and purchases denominated in Renminbi and incorporate the exchange risk in all quotations.



Contingent Liability

As at 31 December 2005, the Group had contingent liability of HK$7,800,000 (2004: HK$7,800,000) for the standby letter of credit. Prior year's balance also included contingent liability of HK$36,973,000 arising from the bills discounted with recourse, which was accounted for as collateralised bank advances in the balance sheet in the current year pursuant to adoption of HKAS 39.

Charge on Assets

As at 31 December 2005, certain assets of the Group with aggregate carrying value of HK$182,800,000 (2004: HK$344,800,000), excluding amount of HK$127,200,000 reclassified to a disposal group classified as held for sale in the current year, were pledged to secure loan facilities utilized by the Group.

Employees

As at 31 December 2005, the Group had a total of 7,400 (2004: 8,000) employees. Total staff cost incurred during the year 2005 amounted to HK$102,800,000 excluded staff cost included in cost of sales & directors' remuneration (2004: HK$101,000,000). The Group offers a comprehensive remuneration and benefit package to its employees, and remuneration policies are reviewed by the management on a regular basis.

The Group also adopts a share option scheme which is reviewed and revised periodically in accordance with the latest statutory requirements. The Group has already taken into account the comparable remuneration level of the market when structuring the scheme.

Disposal of The Office Premises

Pursuant to the provisional sales and purchase agreement entered into on 17 August 2005, the Group entered into a formal sales and purchase agreement on 15 September 2005 with an independent third party to sell the office premises in Hong Kong. The aggregate consideration was HK$43,000,000, and the transaction was approved in the Group's special general meeting held on 15 November 2005. Upon completion of the transaction before 16 August 2006, the Group will record a gain on disposal and a net cash proceeds of approximately HK$19,500,000 and HK$28,000,000 respectively. The net proceeds will be used to reduce the bank borrowing and further enhance the liquidity of the Group.

PROSPECTS

The management has decided to focus on the manufacturing operations in Asia. The Group has a total of six manufacturing plants in PRC and Vietnam. The total land area in the manufacturing plants is over 600,000 square meters. The production capacity is sufficient to meet the existing turnover level, and therefore the management does not anticipate any capital investment projects in the near future.

Despite the challenges facing the Group, the manufacturing operations continue to be profitable. The management is confident that the Group's performance will be improved after years of re-structuring of the Group.

With the highly recognition of the products in the markets, the turnover for the coming years could be sustained. In the manufacturing plants, the management has taken corrective actions to simplify the organizational structure and operational flows. In the overseas offices, the management has re-structured the operations and downsized the offices. The management has shifted some of the warehousing businesses to FOB businesses in order to reduce the inventory cost and operational risk.

Taking all the above measures, the Group should be able to turnaround and achieve profitable years in 2006 and onwards. The management has always reminded to maximize the shareholders' returns.