

Chairman's Statement

RESULTS

The Group's turnover for the year continued to show strong growth, rising 18.7% to HK\$2,602.0 million. Profit attributable to shareholders increased by 14.2% to HK\$162.9 million and basic earnings per share was HK2.43 cents (2003: HK2.24 cents). The results reflect the expansion of our technology operation, which offsets difficult conditions affecting the toy operation that included rising plastics prices and labour costs.



Zhongshan Coronet Toys Ltd.

DIVIDEND

The directors recommend the payment of a final dividend of HK2.0 cents per share in respect of 2004 (2003: HK1.7 cents per share), to shareholders whose names appear on the Register of Members of the Company on 17 May 2005. The Register of Members will be closed from 10 May 2005 to 17 May 2005, both days inclusive and the proposed dividend will be paid on 18 May 2005 following approval at the Annual General Meeting.

OPERATIONS

The toy operation provides a stable source of revenue and remains the largest contributor to turnover representing 68.4% of Group turnover in 2004. However, its profitability was adversely impacted by spiraling plastics costs. Electricity and labour shortages in Guangdong province have further compounded the problem. Although revenue was stable, earnings before interest expense and taxation ("EBIT") declined by 29.2% to HK\$64.3 million. These adverse impacts, however, have been mitigated by the Group's cost saving measures adopted and sharing of plastics costs increases with customers.

On the positive side, the strategic initiative of diversifying operations begins to contribute good results. The rapidly expanding technology business posted a strong growth in turnover of 86.0% to HK\$636.9 million and EBIT growth of 191.3% to HK\$52.0 million. This achievement is a flow through of its successful strategy to develop specialised products, initially in the area of mobile telecommunication accessories, where it is increasingly able to exploit the synergies and relationship with Hutchison Whampoa group ("Hutchison group") companies and its suppliers. The technology operation has also successfully developed its own "i.Tech" brand in pursuance of its business strategy to establish its position as a respected Original Brand Manufacturing ("OBM") player in the technology field.

The Group signed a licensing and sourcing agreement with Warner Bros. Consumer Products Inc ("Warner Bros.") that has opened a new dimension for business expansion. Tremendous business opportunities now opened to the Group cover the entire value chain, spanning licensing, retailing, distribution, sourcing and manufacturing. Up to thousand of new product designs covering a wide range of categories including apparels, stationeries and premium, have been developed and will be available to the market in 2005.

Chairman's Statement

The property operation's EBIT grew 4.1% to HK\$64.6 million benefiting from the rising demand for good quality office space in Shanghai. The Group's two prime properties, Harbour Ring Plaza and Harbour Ring Huang Pu Centre, maintained high average occupancy rates of 96% and achieved rising rental levels in 2004.

Strong cash flows and prudent financial policies ensured that the Group remained well capitalised. At the end of 2004, cash and cash equivalents together with other liquid listed investments totalled HK\$2,043.3 million. The Group is in a strong position to capture market opportunities and increase its competitiveness.



Assembly lines, Toy

OUTLOOK

Despite the continuation of the challenges faced in 2004 into 2005, the Group is well positioned to deliver strong results.

While sales are expected to remain steady, the toy operation continues to introduce cost control measures to improve its profitability. The technology operation is targeting another year of strong growth, driven by new Bluetooth products with broader global distribution. The Group is moving fast up the value chain to position itself not only as an Original Equipment Manufacturing and Original Design Manufacturing but also OBM supplier on

the technology front. Consolidation of relationship with members, business associates and partners of Hutchison group would boost turnover and expand the Group's product lines. To strengthen its distribution network in Europe, a service office has been established in the UK. Further expansion of this distribution network to better serve members of the Hutchison group and develop new businesses with new customers is being pursued. The licensing and sourcing operation which includes the cooperation with Warner Bros., will expand and provides promising opportunity in 2005.

The Group will continue to strive for cost saving and to this end will expand centralised procurement to all areas of operation. The Group will also look for attractive areas in which to invest in future growth and diversification.

I would like to thank my fellow directors and all the Group's employees for their hard work, support and dedication during the year.

Fok Kin-ning, Canning

Chairman

Hong Kong, 21 March 2005