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FINANCIAL OVERVIEW

The Group's turnover for 2004 was HK$2,602.0 million, representing an increase of 18.7% over 2003. Toy manufacturing is the primary business of the Group and accounted for 68.4% of the Group's total turnover. The Group recorded an audited consolidated profit attributable to shareholders of HK$162.9 million for the year ended 31 December 2004 compared to HK$142.7 million for 2003, an increase of 14.2%.

The Group's strong performance was led by the continued rapid development of the technology operation, which provided the momentum for growth in both revenues and earnings.

Zhongshan International Toys Ltd.

TOY OPERATION

The Group's toy operation continued to contribute the bulk of the Group's revenues. Turnover for the year was relatively stable, compared to last year, at HK$1,780.6 million. Earnings before interest expense and taxation ("EBIT"), however, declined 29.2% to HK$64.3 million, reflecting the challenging conditions at its production base in China's Pearl River Delta region and the rapid increase in the prices of plastics.

A steep rise in labour costs was an important factor affecting profitability, following a tightening of the labour supply in southern China. This was due to a decrease in the movement of the rural labour as a result of a change in Government policy. To help relieve the labour shortage, management plans to recruit labour from the more remote provinces.

Economic growth in the Pearl River Delta has surpassed the estimates of the provincial authorities, with the result that installed power generating capacity is now unable to meet demand. Management had prepared for this situation at an early stage through the expansion of its back-up power generation capacity. As a result, the operation is now well positioned to contain the adverse impact of any power outage albeit at a relatively higher cost.

Margins were substantially affected by rises in prices for plastics, a major raw material for toys. The Group has established a central purchasing office ("CPO") for the toy operation to help reduce the cost of raw materials. The greater economies of scale enjoyed by the CPO are expected to enable the businesses to secure greater volume discounts from suppliers.

The toy business is largely an Original Equipment Manufacturing ("OEM") supplier to some of the world's leading brand names and niche players in the toy industry, offering a 'one stop' service from product development to production. Customers continue to be attracted by the Group's reputation for quality, timeliness, service and cost-effectiveness. The operation maintained close contact and communication with customers and remained highly competitive on cost, despite market pressures.

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Strong demand was seen for the Teenage Mutant Ninja Turtles products that were reintroduced in 2003 and later in the year for the Cabbage Patch Dolls that were also reintroduced during 2004. In addition, the Group was able to diversify into household products, supplying substantial volumes of battery operated fragrance dispensers to a major UK household products company that distributes worldwide.

Assembly lines, Technology

TECHNOLOGY OPERATION

The Group's technology operation built on the strong results recorded in its first full year of operation in 2003 by increasing turnover for the year by 86.0% to HK$636.9 million, while EBIT grew 191.3% to HK$52.0 million.

The Group's technology operation saw very strong growth in revenues as it attained success in launching its "i. Tech" brand and continued to see strong demand for its OEM and Original Design Manufacturing ("ODM") services.

Sales of "i. Tech" products grew strongly, led by the Bluetooth headsets, while the award winning Virtual Keyboard also began to see demand. In December 2004, a digital radio was launched, further augmenting the range of product lines. During the year, the Group developed a new Virtual Keyboard that is Bluetooth enabled, which is forecast to increase the popularity of this high-end product. The "i. Tech" brand has been gaining recognition and growing in popularity supported by increased promotional activity in key markets, ranging from point of sale display to advertising.

The OEM and ODM businesses saw steady growth in revenues as the Group continued to offer customers high quality products and competitive pricing. The competitive edge is enhanced with greater level of customisation and product differentiation through further development along the ODM and Original Brand Manufacturing route. Mobile phone accessories experienced especially robust sales growth. The Group's economies of scale, together with a focusing of the business on areas of comparative advantage enabled it to defend margins.

Both the branded and non-branded businesses benefited considerably from the Group's increasingly established position as a preferred supplier for selected mobile accessories for Hutchison's 3G mobile multimedia services worldwide, and introductions to the business partners of the Hutchison group. Major customers during the year included LG, NEC and a number of mobile handset distributors in Europe, Asia and North America.

LICENSING AND SOURCING OPERATION

Turnover at the Group's licensing and sourcing operation was HK$137.5 million, while EBIT was HK$1.6 million. The Group's licensing and sourcing operation was established in 2004 and an agreement was signed with Warner Bros. Consumer Products Inc ("Warner Bros."). The Warner Bros. agreement, which mainly covers Hong Kong, Mainland China and Macau, provides a building block for a value chain

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ranging from sourcing to distribution and brand licensing. During the year, the Group achieved a breakthrough by winning in open tender a substantial contract to source Warner Bros. licensed toy products for a major UK retail chain.

Besides the cooperation with Warner Bros., the operation also has supply agreements with NEC and LG. In order to develop its businesses and markets further, it has expanded its sales and marketing team, as well as market research.

Harbour Ring Plaza, Shanghai

PROPERTY OPERATION

The Group's property operation reported improved turnover and EBIT for 2004 as compared with 2003, of HK$46.9 million and HK$64.6 million respectively. During 2004, the Group disposed of an industrial property in Shenzhen realising a gain of HK$6.2 million.

The property market in Shanghai experienced robust growth in 2004. The city has benefited from the inflow of foreign investment as Mainland China's leading commercial and financial centre resulting in rising demand for prime office space. As a result, the Group's two properties, Harbour Ring Plaza and Harbour Ring Huang Pu Centre, maintained high average occupancy rate of 96% for the year, which together with rising rental levels and stable costs resulted in higher EBIT.

CAPITAL RESOURCES AND LIQUIDITY

The Group's financial position remained healthy in 2004. Total cash and cash equivalents plus other liquid listed investments amounted to HK$2,043.3 million as of 31 December 2004 (2003 – HK$2,047.5 million). As in the previous year, the Group was debt free at the end of 2004.

TREASURY POLICIES

As at 31 December 2004, the Group had no material exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

CHARGES AND CONTINGENT LIABILITIES

There were no fixed assets pledged as at 31 December 2004. As at 31 December 2003, mortgage loan facilities totalling HK$0.7 million granted by certain banks to purchasers of the Group's properties in China were secured by the guarantee of a subsidiary company. There were no contingent liabilities as at 31 December 2004.

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Heavy Metal Testing

HUMAN RESOURCES

Excluding associated companies, the Group employed 22,099 people at the end of 2004, 1,437 more than at the end of 2003. Total employee costs for the year, including directors' emoluments, amounted to HK$401.9 million compared to employee costs in 2003 of HK$371.5 million.

The salary and benefit levels of Group employees are competitive and individual performance is rewarded through the Group's salary and bonus system. Remuneration packages are reviewed annually during the year.

The Group places considerable emphasis on training and ensures employees have the skills training they need to be able to contribute towards achieving common goals.

OUTLOOK

The Group anticipates further growth in turnover from the technology and licensing and sourcing operations in 2005.

While business expansion over a wider geographical spread is the major focus for 2005, the Group is also continuing to pursue cost saving and improvement in process efficiency through further computerisation.

Although the toy markets globally remain competitive, the Group's strong customer relationships and reputation for on-time delivery of quality products should help to protect its leading position in the market. The Group is focusing on improving margins through appropriate pricing strategies to share the impact of price fluctuations of major raw materials with customers.

The technology operation is targeting another year of strong growth, which will continue to leverage on the new Bluetooth products, including a Bluetooth enabled Virtual Keyboard, that will have wider global distribution and should be supported by increasing businesses from existing customers including but not limited to LG. The growing in popularity of the "i.Tech" brand and products would also serve as a driving force propelling the operation forward in terms of turnover and profitability.

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The Group's recently established licensing and sourcing operation will continue to seek opportunities for growth. Cooperation with Warner Bros. and their licensees in licensing, retailing, distribution, sourcing and manufacturing will generate additional turnover giving effect to the Group's strategy in diversifying operations to sustain strong business growth. Partnership with PRC sub-licensees to move the retailing business forward is being considered. The Group will also develop additional products for global distribution, such as apparel, stationery and electronic items. Licensing arrangements with other parties are being explored.

The continuing growth in the Chinese economy, and Shanghai's further development, should support high occupancy and rental levels at the Group's two properties, which should continue to provide a stable source of income to the Group.

Ko Yuet Ming
Managing Director

Hong Kong, 21 March 2005