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FINANCIAL OVERVIEW

The Group's consolidated turnover for the year amounted to HK$2,587.8 million, 1% less than last year's of HK$2,620.4 million, reflecting a 305% increase in property rental revenues offset by a 10% decline in manufacturing revenues. The Group's consolidated earnings before interest expense and taxation ("EBIT") for the year totalled HK$213.0 million, a 6% decrease compared to HK$225.8 million reported last year. The EBIT decline was mainly due to extremely competitive environments in the Group's manufacturing divisions coupled with rising costs of material and labour, and one time charges of over HK$100 million for restructuring and re-engineering initiatives implemented by the new management team comprising provisions against slow moving stock, additional duties and internal restructuring costs. This was covered by the improved results from the property division which reported an EBIT increase of HK$173.7 million; the profit on revaluation of the investment properties of HK$99.0 million (2005: HK$32.2 million); the profit on disposal of available-for-sale financial assets of HK$35.7 million (2005: HK$11.9 million); the profit on disposal of an office property in Hong Kong of HK$22.4 million (2005: Nil); and other one-time gains of HK$0.8 million (2005: HK$61.6 million).

TOY DIVISION

Zhong Shan Coronet Toys Ltd.

The toy division experienced a 6% decrease in turnover from HK$1,849.7 million to HK$1,734.5 million and reported a loss before interest expense and taxation ("LBIT") from recurring operations of HK$31.2 million for the year compared to EBIT of HK$49.0 million in 2005.

The decline in turnover reflects cautious ordering in 2006 by major customers in the U.S.A. in anticipation of more moderate consumer toy spending. In addition, the competitive toy manufacturing environment continued to affect the profit margins of the toy division. The increasing raw material costs, notably for plastics and metals, increased wages and overhead costs in Mainland China and the gradual appreciation of the Renminbi relative to the Hong Kong dollar have adversely affected the results of the division.

The Group has taken a series of critical steps to increase long-term profitability by targeting good quality orders and by implementing improved cost control measures. In order to capture good quality orders, the Group bolstered its research and development capabilities to capture business opportunities for high-end original equipment manufacturing ("OEM") products. The management costing system has been enhanced to provide product costing information on a more accurate and timely basis, facilitating better pricing and order acceptance procedures. To boost operational efficiency and reduce costs, the Group has been rationalising and re-engineering its work flow and processes, and has recently started a review of its supply chain management to further reduce costs.

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The Group has also disposed of one floor of a Hong Kong office building previously occupied by the toy division.

Good progress has been made during the year and this division anticipates benefits from its investment in the cost control measures implemented during the year and the ongoing re-engineering exercise.

Bluetooth® assembly lines

TECHNOLOGY DIVISION

Turnover of the technology division decreased by 22% to HK$488.2 million in 2006 and LBIT amounted to HK$74.9 million for the year, compared to EBIT of HK$14.8 million in 2005.

The decrease in turnover was mainly attributable to increased competition and to delays in the launch of new products by the major mobile phone manufacturers, particularly the Bluetooth® stereo embedded phones. The sales decline combined with the assumption and conversion of the toy division's surplus manufacturing facilities in Panyu in March 2006 resulted in production over-capacity, which also adversely affected profitability.

In order to establish a good foundation for long-term growth, the Group has continued to build its brand in the Bluetooth® market, expanded its markets as well as strengthened its research and development capabilities. This division has also undergone a series of cost rationalisation exercises, including the appointment of local sales agents to expand the overseas sales network and to reduce selling and administrative costs.

The Group expects to benefit from its ongoing business relationship with key strategic global accounts, launch of new products by the major mobile phone manufacturers in 2007 and successful penetration in the latter part of 2006 of new business opportunities and markets in the U.S.A. and India.

LICENSING AND SOURCING DIVISION

The licensing and sourcing division reported an increase in turnover from HK$98.7 million in 2005 to HK$103.2 million in 2006 and a LBIT of HK$10.3 million was recorded during the year, compared to LBIT of HK$3.0 million in 2005. The increase in LBIT was mainly due to the increased investments in business expansion for the retail sub-licensing business and promotional expenses for the opening of a Warner Bros. flagship store in Shanghai in March 2006.

Warner Bros. Flagship Store, Shanghai

The flagship store has enhanced the brand awareness of the Warner Bros. in Mainland China and provided a foundation for promoting and developing its brand licensing and retail sub-licensing businesses. In October 2006, a Warner Bros. sub-licensed mega store was opened in Macau followed by the opening of sub-licensed stores in Suzhou and Beijing, in Mainland China.

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The Group plans to rapidly expand its network of Warner Bros. retail sub-licensing outlets in Mainland China to capture opportunities arising from the growing consumer market. In addition, the Group has also recently established business relationship with certain other international brands owners, and will continue pursue other brands to provide future growth.

PROPERTY DIVISION

Turnover of the property division increased by 305% to HK$279.6 million in 2006 from HK$69.0 million in 2005, and EBIT, excluding profits from property revaluations and disposals, increased 329% to HK$226.5 million in 2006, compared to HK$52.8 million last year. The increase was attributable to the full year rental income contribution from The Center in Shanghai, which was purchased in November 2005. With the encouraging commercial property market in Shanghai, the Group's investment properties continued to maintain high occupancy rates and rental rates. In view of the promising growth potential of Mainland China and the expected appreciation of the Renminbi, management is optimistic that the property division will continue to maintain strong and steady earnings and cashflow.

The Center, Shanghai

OUTLOOK

In 2006, the Group focused on rationalising and re-engineering its operations, targeting to improve the performance and enhance the long-term growth potential of its well-established and diversified business operations.

With the implementation of various cost control measures, process re-engineering exercises and revised marketing strategies, the toy division targets to improve efficiency and margins. The Group will continue to focus on providing its customers with top quality toy products in the most cost-effective manner.

Looney Tunes Light Up the Town 2006, Hong Kong

The performance of the technology division is targeted to improve from the expansion of its sales channels, new strategic global accounts secured in late 2006 and penetration of new markets. This technology division will continue to streamline its cost structure, building on the cost rationalisation programs implemented in 2006. The Group is investing prudently in research and development to continue to produce innovative high quality products and is also continuing to develop a wider range of products to broaden its product offerings and market coverage.

The licensing and sourcing division plans to accelerate the expansion of its Warner Bros. retail sub-licensing network, especially in the Mainland China market. The Group will also strive to explore opportunities with new, strategic business partners to build its licensing and sourcing business.

The Group's property division will continue to benefit from the strong economic growth in Mainland China, resulting in high occupancy rates which provide strong and steady earnings and cashflow.

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Managing Director

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