On behalf of the Board of Directors, I am pleased to present the results of Kin Yat Holdings Limited ("the Company") and its subsidiaries (collectively the "Group") for the year ended 31 March 2001.

PERFORMANCE AND BUSINESS REVIEW

Overall, the Group recorded a 53% increase in total turnover to HK$811 million for the year ended 31 March 2001, but as noted in our interim report, the rise in costs of raw materials and a shortage of electronic components in the toys division during the year have affected the profitability of this division. As a result, profit after finance costs for the toys division dropped 20% to HK$65 million, on a turnover of HK$603 million. The Group's diversification into motors manufacturing, through the acquisition of a 70% interest in Standard Motor at the end of 1999, has proved to be a correct move. During the year under review, this new Group member contributed HK$28 million in profit after finance costs, and a turnover of HK$135 million.

Toys operations

Over the past year, market conditions were challenging for the toys operation. In the face of an industry-wide slowdown, toys companies continued to tighten control over inventory levels, further shortening the production lead-time. Production costs went up as a result. This, coupled with a rise in plastic and fuel costs and a shortage of electronic materials, leading to a decline in the gross profit margin for the toys operation from the 25% of the previous year to 20% for fiscal 2000/01.

In addition to maintaining tighter controls on production costs, the Group has also responded to these market conditions by aggressive business development initiatives. Last year, the Group successfully clinched notable contracts from several new clients. Business diversification has also helped the Group stabilize its business to successfully weather any storms in the business cycle.

Motors operations

After excluding the turnover of HK$13 million sold to the Group, the motors operation recorded a 87% growth in turnover to HK$135 million, and profit after finance costs of HK$28 million, also up over 4 times. During its early phases of development, Standard Motor focused on the manufacture of motors for applications in toys, but as its business progresses, it has sought to strengthen the base for this growth by diversifying its product portfolio and hence client base.

Last year, in addition to maintaining steady growth for the toys line, the division also commenced the development of a new line of motors for personal care products. Samples were sent to various potential customers. After a series of testing and plant visits by our customers, trial orders were received during the year. We confidently expect more orders to materialize this year.

CDRs operations

As part of its diversification initiatives, the Group has now entered CDR manufacturing by taking a 33% interest in Concord, a Hong Kong-based optical product producer. Concord recorded a loss of HK$9.6 million last year due to severe price competition as well as the inadequate scale of production in Hong Kong caused by the delay in the planned facilities relocation to Mainland China. The Group's investment in the company is still held in reserve, pending Concord's future expansion of production capacity.

In addition to these external factors, Concord's loss incurred was also largely attributable to the depreciation of machinery. During fiscal 2000/01, which was the first year of full operation for Concord, the initial set up costs were written off. These two cost items accounted for around 70% of the operation's loss during the year. The booking of these costs was reflected in the profit and loss account, but did not have negative impact on the operation's cash flow position.

PLANS AND PROSPECTS

Despite the adverse market conditions in the toys industry, the Group has continued with its planned expansion of facilities in Shaoguan. This is in line with the Group's long-term plan to move its production northwards, from Shenzhen to Shaoguan. Shenzhen will be retained as a production base for higher-value and high-tech products as well as in the role of product development centre. The focus of the Group's future capacity growth will be in Shaoguan where the Group enjoys substantial cost and tax benefits. During the year, the Group has invested over HK$10 million in expanding facilities there.

The Group expects the motors operation to become another core business line in the future. Having made a strong debut in the toys market, the division is now working hard to develop a new line of motors for personal care products. Approval has already been granted by major brand-name customer from whom trial orders were received. Management has full confidence in this product line, and anticipates that this trial programme will be upgraded to mass production in 2002/03, and will drive the division's growth over the next few years. Overall, the motors division is expected to contribute more significantly to the Group's results in the coming year.

With the prices of CDRs stabilizing and the gradual replacement of floppy diskettes by CDRs, Concord is expected to record improved results in the coming year. The elimination of competition following last year's price war will help to place the stronger players on a healthier operational platform. To gain long-term competitive advantage, the Group will also continue to assist Concord in seeking approval for the relocation of its manufacturing facilities to Mainland China, where the division is able to establish a cost-effective production base on an optimal scale. Faster-paced developments are anticipated in the coming years following the granting of approval for production in China.

LIQUIDITY AND FINANCIAL POSITION

The Group has relied on its internally generated cash flow and banking facilities to finance its operations and business development during the year. The Group has always adopted a prudent and conservative policy in its financial management. At the end of the financial year, the Group has fixed deposits and cash balances aggregated to HK$87 million (2000: HK$139 million). In addition, the Group currently has aggregate composite banking facilities of approximately HK$125 million (2000: HK$120 million) with various banks, of which HK$33 million (2000: HK$ 26 million) has been utilized as at 31 March 2001.

The financial position of the Group continued to be healthy. As at 31 March 2001, the current ratio (current assets divided by current liabilities) was 1.9 times (2000: 2.06 times) and the gearing ratio (long term liabilities dividend by shareholder funds) was 2.6% (2000: 0.8%).

FINAL NOTE

Management holds a cautious but positive view of the toys market for the next few years. While competition will continue to be fierce with the economy staying soft for longer than originally anticipated, some smaller or less proficient manufacturers may be edged out of the market. Management believes that market adjustments will, in the long term, help to regulate the industry and bring healthier competition. The Group will continue to strengthen its competitive edge through business and production base diversification, in preparation for the next upswing in the economic cycle.

We are particularly thankful to our staff who have worked exceptionally hard while the Group has negotiated various challenges. We are also grateful for the support of our customers, suppliers and shareholders. Our pace of growth may be impeded in the short term, but we have an optimistic outlook on our future business development. We believe that our sturdy operational foundation, a strong client base, high-quality and competitively priced products, and the right strategies will bring the Group successfully through market turmoil to capture long-term sustainable opportunities.

Cheng Chor Kit
Chairman

Hong Kong
20 July 2001