CHAIRMAN'S STATEMENT

The Board of Directors is pleased to report the audited results of Kin Yat Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 March 2002.

RESULTS

During the year, the Group recorded a slight decrease in turnover to approximately HK$785,804,000, which was about 3% lower than last year. Net profit from ordinary activities attributable to shareholders grew about 16% to approximately HK$98,034,000 for the year under review from approximately HK$84,692,000 the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Toys operations

Global economy was mired in doldrums for a large part of the financial year under review and the September 11 incident in the United States further worsened the situation. Despite sporadic signs of a rebound in the second quarter of 2002, we remain cautiously wary of a sustainable recovery and its viral impact on corporate performances.

Inevitably, price competitiveness is a critical issue at all business levels in such unprecedented difficult time. As a toys manufacturer, we had to deal with severe price reduction pressure from customers and find ways to maintain profitability at the same time. Despite the 11% drop in the turnover of our toys operations to HK$562,473,000, segment result from operating activities from this division rose 11% to HK$81,030,000 for the year ended 31 March 2002.

We attributed this notable improvement in profitability to our strategic relocation of part of our production base in Shenzhen, China, to a more northern remote location at Shaoguan, also in China. This has allowed the Group to take better advantage of lower operating, labour and production costs.

Meticulous optimization of production schedules, especially to off-peak periods, helped keep overheads down, and the stable supply of materials such as electronic components and plastic materials with few price spikes enabled us to budget and control our costs effectively. We will continue to pursue stringent cost control measures to maintain profitability.

On the other hand, the Group remains relentless in expanding revenue sources through pro-active product and business development initiatives. One of our strategies is to refine our focus to high-end toys with more sophisticated electronic functions and of higher margins.

It would be very difficult for the Group to project an outlook for the 2002/03 financial year from existing on-hand orders as customers are very prudent in making commitment at a time when economic uncertainty still lingers. Nevertheless, we have reasonably positive expectation of market feedback to certain licensed toy products related to blockbuster movies recently released.

Motors operations

The Group was very encouraged by the motors division's performance in an unfavorable market environment, further proving that the success of our two-pronged focus on toys and personal care products. Turnover of this division, including the turnover of HK$5,773,000 of goods sold to the Group, advanced 22% to HK$180,676,000 for year in review and segment result from operating activities was HK$42,346,000.

The division's encouraging turnover and profit growth was primarily attributable to increasing market demand of sophisticated motors-powered toys and the emergence of a range of motors used for electronic personal care products. We expect such market trends will further accelerate to the benefits of our motors division.

The revenue contribution split between the toys and personal-care products sector to the division was about 90:10 in the year under review. We anticipate a higher share of income contribution from the personal-care products sector as new products continue to the market at a rapid pace, while the toys sector may begin to stablise after consecutive years of growth.

Always planning ahead, the Group will increase its monthly production capacity to 26 million units from the current 20 million units when the Phase Three expansion plan of our production facilities in Shaoguan, China, completes by the end of 2002. The additional production capacity will allow the Group to explore and experience other motors-dependent business sectors for future development and growth.

CDR operations

Business diversification has been a key domain of the Group's development. The latest endeavour into CDR manufacturing through an equity interest in Concord, a Hong Kong-based optical products producer, is making satisfactory progress. The planned relocation of production facilities from Hong Kong to Shaoguan, China, will commence in the second half of 2002, allowing greater cost efficiency and scalability. The first six production lines are planned to be installed for commercial production in August 2002.

Meanwhile, the CDR division incurred a loss in this interim pre-relocation phase during the year under review, as production capacity was too small to effect economy of scale and the operating costs in Hong Kong were comparatively high. Relocation logistics and preparation also led to a one-off loss. Nevertheless, there was an improvement in overall performance as pricing of CDRs stablised.

PROSPECTS

As Hong Kong's economic infrastructures is evolving, and there are mixed views over global economic outlook, it is increasingly critical for enterprises like the Group to stay alert to changes and focused to its core strengths and businesses. Toys and motors will remain the Group's principal operations and the way ahead is to sharpen our competitiveness in terms of aggressive pricing, innovative product applications, and broadened client portfolio.

We have been geared to make good use of this industry downtime to further rationalize our production base in the more cost efficient Shaoguan, China, in preparation for the next upswing in the economic cycle; and also to delve into our business strategy to tap into the potential of other market segments. Our motors division is a very encouraging example of our business diversification initiatives. We will continue to identify good investment opportunities and broaden our revenue base through the expanded industrial operations platform.

LIQUIDITY AND FINANCIAL POSITION

The Group primarily used its internally generated cash flow and banking facilities to finance its operations and business development during the year. The Group adopts a prudent and conservative policy in its financial management. At the end of the financial year, the Group's aggregated fixed deposits and cash balances amounted to HK$148 million (2001: HK$87 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK$113 million (2001: HK$125 million) with various banks, of which HK$0.7 million (2001: HK$33 million) has been utilized as at 31 March 2002.

The Group continues to enjoy healthy financial position. As at 31 March 2002, the current ratio (current assets divided by current liabilities) was 3.4 times (2001: 2.3 times) and the gearing ratio (long term liabilities divided by shareholder funds) was 1.5% (2001: 2.4%).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2002, the Group employed some 7,600 full time employees, of which approximately 50 were based in Hong Kong with the remainder in China.

The Group remunerates its employees largely in accordance with prevailing industry standards. In Hong Kong, the Group's employee benefits include staff retirement scheme, medical scheme and performance bonus. In China, the Group provides its employees staff welfare and allowances in accordance with prevailing labour law. The Group has also put in place a share option scheme to motivate and reward performing staff. At the discretion of the Board of Directors, the Group's employees will be granted options, the amount of which is determined by performance and rank of individual employees.

APPRECIATION

We are particularly thankful to the dedicated efforts of our staff and the strenuous support extended by our customers, suppliers and shareholders. We believe that the business dynamics of the Group is now more efficient than ever to capture growth opportunities and benefit from the very first signs of an economic turnaround.

Cheng Chor Kit
Chairman

Hong Kong
15 July 2002