CHAIRMAN'S STATEMENT

The Board of Directors is pleased to report robust results for Kin Yat Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 March 2003, against a background of global uncertainties and slowdown.

GROUP RESULTS

Overall, the Group's turnover remained stable at HK$794,209,000, reflecting the resilience of its core industrial operations and the Group's ability to generate reasonable revenues and returns from them amidst poor economic conditions. Attributable profits fell by approximately 27% to HK$71,443,000 as a result of conservative order placements by clients leading to erosion in margins. In comparison with the past year, gross profit margin was reduced by about 2% points to approximately 21% by the following factors: global pricing pressures, shift in product mix towards the low to middle range and shortened production lead time. The reduction in gross margin was partly offset by the Group's expanding economies of scale and stringent cost control measures.

MANAGEMENT DISCUSSION AND ANALYSIS

Toys operations

Toys manufacturing remained the Group's major contributor of revenues and profitability. In a year marked by a global economy constrained by weak consumption and detrimental events, revenues generated from toys operations were still maintained at a stable level of HK$572,471,000 (2002: HK$564,592,000) as a result of increased orders from new customers. During the year, toys operations contributed approximately 72% of the Group turnover. Segment results declined to HK$46,307,000 (2002: HK$81,030,000).

Customers became increasingly conservative as consumer sentiments remained subdued after the tragic events of September 2001. The lack of confidence and visibility in future consumption patterns had led to a further delay in order releases and the tendency of customers to place orders in smaller sizes. Last year the Group was engaged in an increased number of product development projects, but these had materialized into smaller orders of a larger number of models. This had been compounded by further pressures on pricing and shipment lead time.

The labor dispute in the United States in October 2002 leading to the closedown of West Coast ports resulted in additional air freight expenses and some order cancellations for our Group. This had a further impact on our performance.

Faced with mounting market challenges, toys companies have been looking to the low to middle product range for growth impetus, and entrusting us to develop new models within an affordably-priced range to meet market demands. This has led to a drop in the average selling price and gross margins of our toys output. However as a premium toys producer, our Group remains committed to offering our clients niche electronic features and creative functionality in the items we develop. We believe that with our technical and production competencies, our Group is able to add value to the basic items for the mass market, and still stands a strong position in this segment.

Our years of active participation in the high value-adding toys sector has placed the Group in a strong, world-leading position in the industry, planting the seeds to sustain our growth and profitability in the past years. The division is positioned for a continued expansion and enhancement of production capabilities and efficiency. In the past year, the division purchased more than 70 brand new injection machines to facilitate capacity expansion in Shaoguan.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Toys operations (continued)

Looking ahead, we expect a continuation of the tough operating environment, but recognizing the underlying strengths of its toys operation, management maintains a cautiously optimistic view of the ongoing performance of this division.

Motors operations

The Group's advance into motors production continued to contribute to overall performance. Segment revenues generated from this division, including turnover of HK$14,049,000 of goods sold to the Group, were also kept stable at HK$184,449,000 (2002: HK$182,151,000) with segment results at HK$43,116,000 (2002: HK$42,346,000), an increase of about 2%.

The division's performance was restrained by the softening of demand in motors for toys applications, which remained its mainstay of business. On the other hand, the new personal-care product line was still in its development phase and needs more time before it picks up more significant momentum. The division is currently in a transitional stage towards its long-term goal of achieving a diversified client and product portfolio.

To tap new market fronts, the division will accelerate research and development of new motor applications. This ongoing initiative is expected to crystallize into new product lines for other end-user sectors in the future.

Commanding both product excellence and cost effectiveness, which is a strong leverage in a soft market, management maintains its comfortable confidence in the growth potential of this division.

CDR operations

The Group's investments in optical discs manufacturer Concord continued to serve as a vehicle for long-term business diversification. Performance of this division has improved after the relocation of its production base from Hong Kong to Shaoguan, Guangdong Province, China, with the first 6 lines for CDR production fully installed and operational before the end of 2002.

Such improvements did not occur until the second half of the year due to a prolonged government approval process, so the Group was not able to enjoy a full year of benefits from optimized production scale and efficiency after relocation. The booking of certain one-off losses and start-up costs also accounted for the aggregate loss incurred.

As operations in the new production base went into full gear, effects of economies of scale and cost benefits began to contribute to a turnaround of this division since the first quarter of 2003. Management expects this division to become profitable in this coming fiscal year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Prospects

As we chart forward amidst difficulties and uncertainties, our priorities for 2003/04 remain to deliver stable, improving results from its healthily diversified spread of industrial businesses. We are also committed to utilizing our depth and breadth of capabilities in inaugurating and growing industrial operations, backed by a strong and cost-effective manufacturing base in China, to create new shareholder values. Our previous efforts in expanding and strengthening our operations platform during the industry downtime have given us a strong edge in tackling intensified challenges worldwide.

We are delighted to report that in recognition of our business success and strong momentum to be a step ahead of our counterparts, Forbes Global named our Group as one of "The World's Best 200 Small Companies" in October 2002 after polling fund managers and analysts in key markets. This award came as an encouragement for all our staff, and will certainly serve as the driver for our continued efforts to excel and to grow in all our core operations and markets.

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 time deposits and cash and bank balances amounted to HK$85 million (2002: HK$148 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK$128 million (2002: HK$113 million) with various banks, of which HK$6 million (2002: HK$0.7 million) has been utilized as at 31 March 2003.

The Group continues to enjoy healthy financial position. As at 31 March 2003, the current ratio (current assets divided by current liabilities) was 2.8 times (2002: 3.4 times) and the gearing ratio (long term liabilities divided by shareholder funds) was 1.5% (2002: 1.5%).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2003, the Group employed over 9,000 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 take this opportunity to thank our staff, shareholders, customers and all business partners, who have been a major part of our business success and corporate advancement.

Cheng Chor Kit
Chairman

Hong Kong
21 July 2003