The Board of Directors is pleased to report the results for Kin Yat Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 March 2005.

GROUP RESULTS

While the toys manufacturing industry remained stagnant in the year under review, the Group recorded an increase in both turnover and profit, partly because of bulk orders for movie-related items in the toys operation, and partly because of our successful value engineering process in improving our production efficiency and streamlining the work flow.

Nevertheless, the overall operating environment was difficult with rocketing oil prices that had been pushing costs of major raw materials such as plastics and metals to new heights. Cost control is an even more important factor than ever.

Shortages and unstable supply of labor and electricity in China continued to be major threats to sustaining our low-cost production base in normal operation. Disruptions or contingency measures such as overtime work are putting a tighter strain on our bottom lines.

The Group recorded an attributable net profit of HK$30,766,000, including an extraordinary gain of HK$16 million made from a property disposal, compared with an attributable profit of HK$24,832,000 in the previous year. Turnover increased 18% to approximately HK$737,015,000 for the year to 31 March 2005, from HK$624,665,000 of the previous year.

The toys and motors divisions contributed 63% and 23% respectively in turnover to the Group during the year in review. Performance of the materials operation was also encouraging.

The market environment demands that the Group will have to enhance production efficiency and cost effectiveness pro-actively. Measures have been taken to restructure workforce and operation work flow with positive results and such initiatives will continue.

MANAGEMENT DISCUSSION AND ANALYSIS

Toys

Surging oil prices have made an impact on the cost of plastics and metals, making the toys manufacturing sector more difficult. As an industry practice, most of the customer contracts are confirmed at the beginning of each year, and there is not much room for price fluctuations during the year. Bound by contractual agreements, the Group had no choice but to absorb most of the higher materials costs in 2004, therefore eroding profit margin. The situation improved in the first quarter of 2005 when new price quotations became effective.

Shortages of electricity and labor in China remain key issues for all manufacturers. For the Group, some delivery delays and over-time costs had been caused as a result, although the impact had to some extent been cushioned by its maintenance of a lower-cost production base in Shaoguan.

The toys division reported a turnaround into a segment profit of HK$4,871,000 on a 23% increase in turnover to HK$467,039,000 compared with the previous year. The much improved second half performance helped offset the losses made in the first half. The turnover increase was largely driven by orders for toys relating to a blockbuster movie and the Group's pro-active efforts to restructure its workforce and operation flow to improve productivity.

Looking ahead, the Group expects bulk orders of movie-related items and the benefits of a substantial restructuring plan implemented in the second half to enhance production efficiency and cost effectiveness will be more apparent in the current year.

While surging fuel price and material costs show no sign of subsiding, shortages of labor and electricity seem to sustain, and the market continues to be stagnant and competitive, the Group remains cautiously optimistic in respect of the prospect of the coming year. In response, the Group is in pursuit of value engineering throughout our new product design and development process to keep material and direct labor cost down, The Group also speeded up its relocation of production activities from Shenzhen to the lower-cost base in Shaoguan. As at the year end, more than half of the division's output was from the Shaoguan premises. This ongoing relocation process will continue to help the Group alleviate the impact of the costs increase in the Pearl River Delta area.

Motors

The Group's motors division continued to focus its business activities in the toys sector for the time being, until efforts to build up business in other sectors had yielded more positive results. As the company bears no track record in this sector, it is conceivable that customers are more cautious and vigilant in sample testing and factory inspection. This verification process is taking much longer than expected.

The stagnant performance of the toys sector and mounting price reduction pressure during the year had led to decreases in both turnover and segment profit. Turnover was slightly down 7% to HK$177,532,000 compared with the previous year. Segment profit was HK$36,145,000, down 18%. The substantial increases in materials costs for copper and steel had weathered the Group's profit margin, as fierce market competition made corresponding price increases impossible.

On service performance and industry recognition front, the Group was granted the 2004 Hong Kong Awards for Industry: Productivity Certificate of Merit in November 2004, and ISO/TS16949 quality certification.

Efforts to expand the range of motor-powered devices for future momentum growth will continue, and there will be a stronger focus into the automobile industry. Once we have made the entry breakthrough, this should be a very fast growth area.

Material development

The Group made a strategic investment to launch a new business segment for material development to moderate the cyclical fluctuations of the toys business. We are pleased to report an encouraging results performance, with segmental profit of more than HK$2 million.

Most of the materials developed are primarily for use in Cathode Ray Tube and Liquid Crystal Display. While still in the development stage, the Group will devote more efforts to making this segment of substantial potential a major income stream.

CDRs

The Group's 50%-owned CDR manufacturing arm had to share a loss of approximately HK$16.7 million. Loss in CDR business was attributable to increased production costs while selling prices were reduced due to severe competition.

Following active expansion last year with all of its 12 production lines in full commercial operation, the Group's present task is to increase turnover and profitability.

PROSPECTS

As high fuel prices and China's labor and power shortages persist, the current financial year is going to be very challenging for all manufacturers. Our immediate task is to improve our operating mechanism, cost structure, economy of scale and production efficiency. In the face of a difficult operating environment, our Group will redouble efforts to re-engineer our product development and manufacturing process. The pace of our shift of production activities from Shenzhen to Shaoguan, a long-term initiative our Group started a few years ago to maintain our cost competitiveness, will also be accelerated to mitigate the impact of the labor and electricity shortages in the southern part of Guangdong Province. By maintaining a dual-location production base, our Group enjoys a balance between achieving cost effectiveness and upholding capabilities for high-tech products.

Management will also closely monitor the impact of and act upon China's decision to drop the RMB's peg to the US dollar. The immediate impact on mainland-based manufacturers would be a rise in the prices of Chinese made goods in US dollars and the increase in costs for RMB-denominated expenses, but in the longer term, the key question would be whether the revaluation would effectively slow China's fast-growing economy. For now, the impact is still relatively minor.

Our primary mission is to uphold our core strengths in manufacturing capabilities, technical expertise, research and development acumen and marketing astuteness to sustain our Group's long-term resilience.

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$53 million (2004: HK$63 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK$186 million (2004: HK$147 million) with various banks, of which HK$39 million (2004: HK$32 million) has been utilized as at 31 March 2005.

The Group continues to enjoy healthy financial position. As at 31 March 2005, the current ratio (current assets divided by current liabilities) was 2.7 times (2004: 2.3 times) and the gearing ratio (long term liabilities divided by shareholders funds) was 5.6% (2004: 5.5%).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2005, 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 labor 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 and corporate advancements.

Cheng Chor Kit
Chairman

Hong Kong
22 July 2005