

CHAIRMAN'S STATEMENT

The Board of Directors is pleased to report the results of Kin Yat Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 March 2006.

GROUP RESULTS

The reporting year continued to be full of challenges but the difficult situation inspired us to work even harder to get results. Active business development, coupled with management efforts to enhance production efficiency, has helped mitigate the unfavorable market dynamics and operating difficulties.

Amid the adverse operating environment, the Group was able to achieve satisfactory growth in the toys division and steady performance in the motors division. This positive outcome would not have been possible without the dedicated effort of staff at all levels in the Group.

Turnover increased 6% to approximately HK\$778,293,000 (2005: HK\$737,015,000) for the year ended 31 March 2006, while profit attributable to equity holders of the Company was HK\$59,901,000 (2005 as restated: HK\$29,746,000). The core toys and motors divisions contributed 63% and 23% respectively in turnover to the Group during the year in review.

MANAGEMENT DISCUSSION AND ANALYSIS

Toys

The Group is pleased to report that the toys division has achieved a strong growth in segment results on a slightly improved turnover despite the continued challenging and competitive market conditions during the year in review.

Bulk orders for items deriving from a blockbuster movie helped bolster the division's revenue, but it was the Group's relentless efforts to restructure the workforce and streamline the operation flow to enhance efficiency that had paid off.

As it is the industry's tradition for orders to concentrate in the first half of the year, the Group has prepared itself in advance for a slower second half with stringent cost control and resources utilisation measures.

Despite the encouraging performance, the toys division is looking at challenging years ahead with demanding environmental factors such as high materials cost and labour shortage in the Mainland. As always, the Group is on a high alert to minimise delivery delays and unnecessary additional costs through workflow improvement efforts.

It is evident that entertainment products are the market focus of the toys industry. The Group will continue to develop new products relating to movies or animated television series to capitalise on the latest trends and to ensure our future growth. Other new product development ideas include special-featured plush and infant toys in the soft toys category.

As always, diversification is the key to minimise risk exposure and market volatility in this cyclical business. The Group will pursue this strategy not only in its product mix, but also customer and market portfolios.

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Motors

The toys industry continues to provide core support for the motors division and it remains a significant income source for the Group. Amid the backdrop of a very competitive market environment and beleaguered by rising copper, steel and other material costs as well as labor and electricity shortages in China, the motors division enjoyed a light but highly encouraging increase in both turnover and segment results.

Obviously, the Group's ongoing efforts to achieve a more balanced product portfolio and to focus on products of higher margins have helped mitigate the impact from the rising cost brought on by the rocketing metal material prices. This contributed significantly to the improved performance of the Group, and as metal prices remain on high levels, the Group will continue to strengthen its pursuit for a more favourable product balance.

The Group is also excited about the trial orders received from customers other than those in the toys industry. Though small in volume, these orders represent the beginning of potentially a major income stream and the Group is looking forward to realizing this division's long-term potential to bring more benefits to shareholders.

Materials development

This more stable business segment is highly complementary to the cyclical toys and motors divisions and represents a crucial element for vertical integration. The broader customer base achieved by the division has bolstered sales but at the same time the Group is very conscious of the need to keep its profit margin modest to enhance product appeal and attract customers. Also, as the production activities were relocated to the new plant last year, profitability was squeezed by higher depreciation and interest costs.

To further strengthen the revenue generating capability of this division, the Group will continue to develop and expand its product range to cater to wider market demands.

CDRs

The Group's 50%-owned CDR manufacturing arm managed to control its losses. While the market prices of CD-R and DVD-R have stabilised, the depressed market status is unlikely to turn around shortly and the Group is actively reviewing the strategy for this division.

PROSPECTS

Looking ahead, we are cautiously optimistic as to the prospects of the Group in the 2006/07 financial year. Our persistent efforts in business and product diversification are beginning to generate positive outcome. With a more versatile customer base and product range, and coupled with anticipated firm orders from satisfactory customers on trial orders, we are confident that the Group will be able to achieve encouraging growth in turnover and present a positive prospect and returns to our shareholders. However, the orders in the 2006/07 financial year are expected to concentrate more in the second half.

As evident from the Group's encouraging performance in the year under review, continuous product development and diversification to keep abreast of the market trends and to broaden customer base is fundamental to our continuous success. This will remain the main thrust of the Group's future growth and expansion strategy.

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PROSPECTS (continued)

Internally, the Group's efforts to enhance operating efficiency have made a visible impact on the bottom-line and this further adds momentum to our quest for improvement and achievement.

In view of the Group's strong liquidity position, its management plans to actively identify new investment opportunities after setting aside sufficient capital to fund existing operations and development plans, in a bid to maximise the return for the Group.

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\$138 million (2005: HK\$53 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK\$147 million (2005: HK\$186 million) with various banks, of which HK\$9 million (2005: HK\$39 million) has been utilised as at 31 March 2006.

The Group continues to enjoy healthy financial position. As at 31 March 2006, the current ratio (current assets divided by current liabilities) was 3.6 times (2005: 2.7 times) and the gearing ratio (long term liabilities divided by total equity) was 2.2% (2005 as restated: 4.8%).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2006, 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 and corporate advancements.

Cheng Chor Kit
Chairman

Hong Kong
24 July 2006