



KIN YAT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

The Board of Directors of Kin Yat Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2003 together with the comparative figures for the corresponding period in 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited	
		Six months ended	
		30 September	
		2003	2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	2	395,468	444,916
Cost of sales		(308,481)	(351,416)
Gross profit		86,987	93,500
Other revenue		4,343	5,604
Selling and distribution expenses		(11,295)	(12,337)
Administrative expenses		(34,253)	(33,379)
PROFIT FROM OPERATING ACTIVITIES	3	45,782	53,388
Finance costs		(132)	(106)
PROFIT AFTER FINANCE COSTS		45,650	53,282
Share of profits less losses of associates		3,548	(1,790)

PROFIT BEFORE TAX		49,198	51,492
Tax	4	<u>(3,767)</u>	<u>(4,124)</u>
PROFIT BEFORE MINORITY INTERESTS		45,431	47,368
Minority interests		<u>(3,026)</u>	<u>(2,829)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>42,405</u>	<u>44,539</u>
Dividends	5	<u>8,096</u>	<u>10,121</u>
EARNINGS PER SHARE	6		
Basic		<u>HK10.48 cents</u>	<u>HK11.34 cents</u>
Diluted		<u>HK10.44 cents</u>	<u>HK11.30 cents</u>

NOTES:

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are consistent with those used in the Group’s annual financial statements for the year ended 31 March 2003.

In addition, the Group has adopted SSAP 12 (Revised) “Income Taxes”. SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior periods, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will be crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial

statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The retrospective adoption of this new standard has not resulted in any significant effect on the financial statements in the prior periods, and, accordingly no prior period adjustment has been made.

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts but excluding intra-Group transactions.

(a) Business segments

The following table presents revenue and results for the Group's business segments.

	Unaudited six months ended 30 September											
	Toys and related products				Electrical household appliances				Eliminations		Consolidated	
	2003		2002		2003		2002		2003		2002	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	247,985	307,124	115,651	115,811	31,832	21,981	-	-	395,468	444,916		
Inter-segment sales	-	-	8,529	9,801	-	-	(8,529)	(9,801)	-	-		
Other revenue	1,667	1,278	1,145	883	-	16	-	-	2,812	2,177		
Total	<u>249,652</u>	<u>308,402</u>	<u>125,325</u>	<u>126,495</u>	<u>31,832</u>	<u>21,997</u>	<u>(8,529)</u>	<u>(9,801)</u>	<u>398,280</u>	<u>447,093</u>		
Segment results	<u>16,734</u>	<u>25,148</u>	<u>31,138</u>	<u>30,715</u>	<u>662</u>	<u>472</u>	<u>-</u>	<u>-</u>	<u>48,534</u>	<u>56,335</u>		

Interest, dividend income and unallocated gains	1,531	3,427
Unallocated expenses	<u>(4,283)</u>	<u>(6,374)</u>
Profit from operating activities	<u>45,782</u>	<u>53,388</u>

(b) Geographical segments

The following table presents the Group's geographical segment revenue.

	Unaudited six months ended 30 September											
	United States		Europe		Asia		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	<u>128,591</u>	<u>198,326</u>	<u>95,946</u>	<u>82,944</u>	<u>129,335</u>	<u>128,103</u>	<u>41,596</u>	<u>35,543</u>	<u>-</u>	<u>-</u>	<u>395,468</u>	<u>444,916</u>

3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Unaudited Six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000
Depreciation	17,124	14,854
Amortisation of deferred development costs	3,194	2,662
Amortisation of goodwill	1,163	1,161
Interest income	<u>(232)</u>	<u>(864)</u>

4. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the applicable rates of tax prevailing in the countries in which the subsidiaries operated during the period.

	Unaudited	
	Six months ended	
	30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current period provision:		
Hong Kong	3,452	3,839
Overseas	252	233
	<hr/>	<hr/>
	3,704	4,072
Share of tax attributable to associates	63	52
	<hr/>	<hr/>
Tax charge for the period	<u>3,767</u>	<u>4,124</u>

No deferred tax has been provided as there were no significant timing differences at the balance sheet date (2002: Nil).

5. DIVIDENDS

The directors have decided to pay an interim dividend of HK2 cents per share to the shareholders whose name appear on the register of members of the Company on 9 January 2004. The dividend will be paid on 15 January 2004.

	Unaudited	
	Six months ended	
	30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim – HK2 cents (2002: HK2.5 cents) per ordinary share	8,096	10,121

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$42,405,000 (2002: HK\$44,539,000) and the weighted average of 404,820,000 (2002: 392,599,235) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$42,405,000 (2002: HK\$44,539,000) and 406,226,601 (2002: 394,103,909) ordinary shares, being the weighted average number of shares outstanding during the period, adjusted for the effects of dilutive potential ordinary shares outstanding during the period.

The reconciliation of the weighted average number of shares used in calculating basic and diluted earnings per share is as follows:

	Unaudited	
	Six months ended	
	30 September	
	2003	2002
Weighted average number of ordinary shares used in calculating basic earnings per share	404,820,000	392,599,235
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all options outstanding during the period	<u>1,406,601</u>	<u>1,504,674</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>406,226,601</u>	<u>394,103,909</u>

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 6 January 2004 to Friday, 9 January 2004 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the interim dividend, all transfers of shares of the Company, accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Monday, 5 January 2004.

RESULTS

The overall market environment for the Group's core business continued to be beleaguered with tenuous consumer confidence worldwide, reduced buying activities from retailers and cutthroat price competition. As the positive impact of a worldwide recovery is yet to be felt at the supplier's level, the Group's priority is to continue to improve its production efficiency, pricing strategy and the development of niche products for the world's core toy markets.

During the first half of the financial year, the Group's overall turnover fell 11.1% to approximately HK\$395,468,000, from HK\$444,916,000 for the same period last year. Net profit from ordinary activities attributable to shareholders dropped 4.8% year-on-year to approximately HK\$42,405,000.

In the first half, the toys and motors divisions contributed 62.7% and 29.3% respectively in revenues to the Group. It is the management's intention to continue its business diversification initiative to strengthen the Group's revenue generating power.

The Group is very encouraged by the performance of our CDR manufacturing arm, which reported its maiden profit since operation. With a cost-efficient production base in China, this operation is now in a much more competitive position to develop new clients and businesses.

REVIEW OF OPERATIONS

Toys

Buyers and retailers continued to adopt a very conservative and cautious stance. The very strained situation in Iraq towards the end of last year and early this year – usually the critical order placement time – had pulled buyers back from committing to any new projects, resulting in very sluggish manufacturing activities in the second and third quarters of 2003. Business activities were interrupted further as Hong Kong and certain parts of China were ravaged by the outbreak of the Severe Acute Respiratory Syndrome (“SARS”) earlier this year.

Our customers chose to minimize their risk exposure through active product diversification to appeal to a broader spectrum of consumers. Such strategy – more variety, lower volume for each model – diminished economy of scale and put a tight squeeze on our profit margin. In addition, retailers continued to target their merchandising effort on mid-to-low priced items and transfer significant pressure on the manufacturers.

The division was able to maintain its gross margin even though there was a 19.3% drop in turnover to HK\$247,985,000 during the six-month period. This achievement was largely attributable to ongoing efforts to introduce innovative and value-added products, sustain capital expenditure, reduce costs and optimize deployment of resources.

With the continued volatile situation in Iraq, cautious buying decisions from customers, and increasingly keen competition in the industry, the outlook for the second half of the financial year remains challenging. The management will persist in its efforts to seek performance improvement.

Motors

The Group's motors division continued to derive the majority of its business from the toys sector. Despite the overall weakness of the toys market, this division was able to sustain its turnover to approximately the same levels of HK\$124,180,000 in comparison with previous period.

The Group was able to achieve a higher margin from a change of product mix to more high value-adding items. Though a large part of this increase was offset by rising steel prices, the Group recorded a 1.4% growth in segment result from the same period last year.

The Group continued its attempts to expand motor-powered applications to enhance product mix. This strategic initiative might have dampened the division's profit margin in the short term, it is instrumental to the segment's sustained growth in the longer term.

CDRs

The Group's 50%-owned CDR manufacturing arm performed satisfactorily and recorded profit for the first time. Its six production lines had been in commercial operation during the entire six-month period. The relocation to China last year was proven to be a strategic move of substantial benefits to lower manufacturing and overhead costs, and to strengthen the division's competitiveness in business and customer acquisition.

OVERALL OUTLOOK

Global consumption for toy products and other motor-powered devices lacks growth momentum. The cautious sentiment is unlikely to disperse in the short term. In addition, the continued instability in the Gulf area is always a concern, as any oil price hike would increase the cost of plastic, one of our major raw materials, and impede our profitability. The overall outlook is further clouded by the sharp increases in metal prices, a trend which is likely to prevail for some time until the overheated demands begin to level out.

Nevertheless, we continue to harbour cautious optimism as to the prospect of our future growth potential and are actively preparing ourselves to capitalise on emerging opportunities of synergistic value.

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 period. The Group adopts a prudent and conservative policy in its financial management. At the end of the financial period, the Group's aggregated time deposits and cash and bank balances amounted to HK\$74 million (31 March 2003: HK\$85 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK\$128 million (31 March 2003: HK\$128 million) with various banks, of which HK\$0.4 million (31 March 2003: HK\$6 million) has been utilized as at 30 September 2003.

The Group continues to enjoy healthy financial position. As at 30 September 2003, the current ratio (current assets divided by current liabilities) was 2.0 times (31 March 2003: 2.8 times) and the gearing ratio (long term liabilities divided by shareholder funds) was 1.5% (31 March 2003: 1.5%).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report, except that the independent non-executive directors of the Company are not appointed for specific term but subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

AUDIT COMMITTEE

The Company established an Audit Committee (the “Committee”) in 1999 in compliance with the requirements of the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The Committee was established with written terms of reference, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive directors. The work of the Committee has covered the financial period ended 30 September 2003.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE WEBSITE

A detailed results announcement containing all the information required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Cheng Chor Kit
Chairman

Hong Kong, 15 December 2003

Please also refer to the published version of this announcement in South China Morning Post.