



KIN YAT HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)
(Stock code: 638)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2006

The Board of Directors of Kin Yat Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2006 together with the comparative figures for the previous corresponding year as follows:

CONSOLIDATED INCOME STATEMENT

| | Notes | 2006 HK\$'000 | 2005 HK\$'000 (Restated) |
|--|-------|----------------------|--------------------------------|
| TURNOVER | 3 | 778,293 | 737,015 |
| Cost of sales | | (628,507) | (624,360) |
| Gross profit | | 149,786 | 112,655 |
| Other income and gains | | 13,446 | 27,292 |
| Selling and distribution expenses | | (20,608) | (24,580) |
| Administrative expenses | | (57,297) | (60,286) |
| PROFIT FROM OPERATIONS | 4 | 85,327 | 55,081 |
| Finance costs | | (1,116) | (838) |
| Share of profits and losses of associates | | (15,764) | (17,254) |
| PROFIT BEFORE TAX | | 68,447 | 36,989 |
| Tax | 5 | (4,017) | (4,187) |
| PROFIT FOR THE YEAR | | 64,430 | 32,802 |
| ATTRIBUTABLE TO: | | | |
| Equity holders of the Company | | 59,901 | 29,746 |
| Minority interests | | 4,529 | 3,056 |
| | | 64,430 | 32,802 |
| DIVIDENDS | 6 | | |
| Interim | | 8,096 | 2,024 |
| Proposed final | | 16,193 | 10,120 |
| | | 24,289 | 12,144 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 7 | | |
| Basic | | HK14.80 cents | HK7.35 cents |
| Diluted | | HK14.76 cents | HK7.33 cents |
| CONSOLIDATED BALANCE SHEET | | | |
| | Notes | 2006 HK\$'000 | 2005 HK\$'000 (Restated) |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 298,472 | 310,163 |
| Investment properties | | 25,800 | - |
| Prepaid land lease payments | | 13,017 | 11,375 |
| Goodwill | | 4,650 | 4,650 |
| Interests in associates | | (10,501) | 4,969 |
| Deferred development costs | | 6,623 | 8,025 |
| Total non-current assets | | 338,061 | 339,182 |
| CURRENT ASSETS | | | |
| Inventories | | 149,939 | 163,450 |
| Accounts receivable | 8 | 53,430 | 68,851 |
| Prepayments, deposits and other receivables | | 15,893 | 50,015 |
| Time deposits | | 86,889 | 13,025 |
| Cash and bank balances | | 51,426 | 39,542 |
| Total current assets | | 357,577 | 334,883 |
| CURRENT LIABILITIES | | | |
| Accounts and bills payable, accrued liabilities and other payables | 9 | 80,225 | 91,290 |
| Interest-bearing bank borrowings | | 9,434 | 22,767 |
| Tax payable | | 8,357 | 8,668 |
| Total current liabilities | | 98,016 | 122,725 |
| NET CURRENT ASSETS | | 259,561 | 212,158 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 597,622 | 551,340 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | | - | 15,833 |
| Deferred tax liabilities | | 12,672 | 9,318 |
| Total non-current liabilities | | 12,672 | 25,151 |
| NET ASSETS | | 584,950 | 526,189 |
| EQUITY | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | | 40,482 | 40,482 |
| Reserves | | 510,819 | 461,660 |
| Proposed final dividend | 6 | 16,193 | 10,120 |
| | | 567,494 | 512,262 |
| Minority interests | | 17,456 | 13,927 |
| TOTAL EQUITY | | 584,950 | 526,189 |

NOTES:

1. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for leasehold land and buildings and investment properties, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

2. Impact of new and revised Hong Kong Financial Reporting Standards

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

| | |
|-------------------|--|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 28 | Investments in Associates |
| HKAS 31 | Interests in Joint Ventures |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 39 Amendment | Transition and Initial Recognition of Financial Assets and Financial Liabilities |
| HKAS 40 | Investment Property |
| HKFRS 2 | Share-based Payment |
| HKFRS 3 | Business Combinations |
| HK(SIC)-Int 21 | Income Taxes – Recovery of Revalued Non-depreciable Assets |
| HK-Int 4 | Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases |

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 28, 31, 32, 33, 37, 38, 39, 39 Amendment, 40, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates. The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at valuation less any accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment. The directors consider that no reliable source of such allocation of lease payments could be obtained for the leasehold land and buildings situated in Hong Kong and accordingly, the land and buildings elements in Hong Kong have not been separated.

As the leasehold land situated in the People's Republic of China (the "PRC") was revalued at open market value in prior years and was depreciated on the market value, the Group has restated the comparative amounts to reflect the reclassification retrospectively for the earliest periods presented in the financial statements. The effects of the above changes are summarised in note 2 (i) and (ii) to the financial statements.

(b) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by directors using the binomial model.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 April 2005.

As the Group has the employee share options, which were granted during the period after 7 November 2002 but had not yet vested as at 1 April 2005, upon the adoption of HKFRS 2, the comparative amounts for the year ended 31 March 2005 have been restated retrospectively to reflect the cost of options which were granted during the period.

The effects of adopting HKFRS 2 are summarised in note 2 (ii) to the financial statements.

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated retained profits and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 April 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 April 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against the retained profits remains eliminated against the retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2 (i) and (ii) to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

The following is a summary of the impact of changes in accounting policies:

(i) *Effect on the consolidated balance sheet*

| At 1 April 2005 | Effect of adopting HKAS 17# | |
|---|--------------------------------|-----------------|
| Effect of new policy (Increase/(decrease)) | Prepaid land lease payments | Total |
| | HK\$'000 | HK\$'000 |
| Assets | | |
| Property, plant and equipment | (24,390) | (24,390) |
| Prepaid land lease payments | 11,602 | 11,602 |
| | <u>(12,788)</u> | <u>(12,788)</u> |
| Liabilities/equity | | |
| Deferred tax liabilities | (3,994) | (3,994) |
| Reserves | (8,952) | (8,952) |
| Minority interests | 158 | 158 |
| | <u>(12,788)</u> | <u>(12,788)</u> |

Adjustments/presentation taken effect retrospectively

| At 31 March 2006 | Effect of adopting | | Total |
|---|---|--|-------------------|
| Effect of new policies (Increase/(decrease)) | HKAS 17 Prepaid land lease payments | HKFRS 3 Discontinuation of amortisation of goodwill | Total HK\$'000 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Assets | | | |
| Property, plant and equipment | (24,390) | - | (24,390) |
| Prepaid land lease payments | 11,602 | - | 11,602 |
| Goodwill | - | 2,326 | 2,326 |
| | <u>(12,788)</u> | <u>2,326</u> | <u>(10,462)</u> |
| Liabilities/equity | | | |
| Deferred tax liabilities | (3,994) | - | (3,994) |
| Reserves | (8,952) | 2,326 | (6,626) |
| Minority interests | 158 | - | 158 |
| | <u>(12,788)</u> | <u>2,326</u> | <u>(10,462)</u> |

(ii) *Effect on the consolidated income statement for the years ended 31 March 2006 and 2005*

| Effect of new policies (Increase/(decrease) in profit) | Effect of adopting | | | | Total HK\$'000 |
|---|--|--|---|--|-------------------|
| | HKAS 1 Presentation of financial statements | HKAS 17 Prepaid land lease payments | HKFRS 2 Employee share option scheme | HKFRS 3 Discontinuation of amortisation of goodwill | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Year ended 31 March 2006 | | | | | |
| Decrease in cost of sales | - | 470 | - | - | 470 |
| (Increase)/decrease in administrative expenses | - | - | (1,000) | 2,326 | 1,326 |
| Total increase/(decrease) in profit | <u>-</u> | <u>470</u> | <u>(1,000)</u> | <u>2,326</u> | <u>1,796</u> |
| Increase/(decrease) in basic earnings per share | HK cent <u>-</u> | <u>0.12</u> | <u>(0.25)</u> | <u>0.57</u> | <u>0.44</u> |
| Increase/(decrease) in diluted earnings per share | HK cent <u>-</u> | <u>0.12</u> | <u>(0.25)</u> | <u>0.57</u> | <u>0.44</u> |
| Year ended 31 March 2005 | | | | | |
| Decrease in cost of sales | - | 869 | - | - | 869 |
| (Increase)/decrease in administrative expenses | - | 7 | (1,800) | - | (1,793) |
| Decrease in share of profits and losses of associates | (518) | - | - | - | (518) |
| Decrease in tax | 518 | - | - | - | 518 |
| Total increase/(decrease) in profit | <u>-</u> | <u>876</u> | <u>(1,800)</u> | <u>-</u> | <u>(924)</u> |
| Increase/(decrease) in basic earnings per share | HK cent <u>-</u> | <u>0.22</u> | <u>(0.44)</u> | <u>-</u> | <u>(0.22)</u> |
| Increase/(decrease) in diluted earnings per share | HK cent <u>-</u> | <u>0.22</u> | <u>(0.44)</u> | <u>-</u> | <u>(0.22)</u> |

3. **Turnover and segment information**

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

(a) **Business segments**

The following table presents revenue and result information for the Group's business segments for the years ended 31 March 2006 and 2005.

| Group | Toys and related products | | Motors | | Electrical appliances | | Material development | | Eliminations | | Consolidated | |
|--------------------------------|---------------------------|----------------|----------------|----------------|-----------------------|---------------|----------------------|---------------|----------------|----------------|----------------|----------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | 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 | 491,464 | 467,039 | 179,701 | 170,802 | 57,976 | 71,997 | 49,152 | 27,177 | - | - | 778,293 | 737,015 |
| Inter-segment sales | - | - | 5,192 | 6,730 | - | - | - | - | (5,192) | (6,730) | - | - |
| Other income and gains | 4,818 | 4,963 | 2,834 | 2,721 | - | 71 | 125 | 213 | - | - | 7,777 | 7,968 |
| Total | <u>496,282</u> | <u>472,002</u> | <u>187,727</u> | <u>180,253</u> | <u>57,976</u> | <u>72,068</u> | <u>49,277</u> | <u>27,390</u> | <u>(5,192)</u> | <u>(6,730)</u> | <u>786,070</u> | <u>744,983</u> |
| Segment results | | | | | | | | | | | | |
| Interest and unallocated gains | - | - | - | - | - | 690 | 2,270 | 2,720 | - | - | 5,669 | 19,324 |
| Unallocated expenses | - | - | - | - | - | - | - | - | - | - | (7,048) | (10,077) |
| Profit from operations | <u>44,471</u> | <u>5,217</u> | <u>40,872</u> | <u>37,207</u> | <u>(907)</u> | <u>690</u> | <u>2,270</u> | <u>2,720</u> | <u>-</u> | <u>-</u> | <u>85,327</u> | <u>55,081</u> |

(b) **Geographical segments**

The following table presents revenue information for the Group's geographical segments for the years ended 31 March 2006 and 2005.

| Group | United States of America | | Europe | | Asia | | Others | | Eliminations | | Consolidated | |
|-----------------------------|--------------------------|----------|----------|----------|----------|----------|----------|----------|--------------|----------|--------------|----------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | 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 | 284,523 | 257,300 | 187,470 | 206,061 | 246,664 | 216,835 | 59,636 | 56,819 | - | - | 778,293 | 737,015 |

4. **Profit from operations**

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

| | 2006 HK\$'000 | 2005 HK\$'000 (Restated) |
|---|------------------|--------------------------------|
| Depreciation | 42,257 | 41,482 |
| Amortisation of prepaid land lease payments | 248 | 227 |
| Amortisation of deferred development costs | 7,716 | 9,314 |
| Amortisation of goodwill | - | 2,326 |
| Surplus on revaluation of leasehold land and buildings, net | (3,494) | (543) |
| Bank interest income | <u>(3,212)</u> | <u>(145)</u> |

5. **Tax**

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | Group 2006 HK\$'000 | 2005 HK\$'000 (Restated) |
|-------------------------------|---------------------------|--------------------------------|
| Group: | | |
| Current – Hong Kong | | |
| Charge for the year | 3,853 | 2,641 |
| Over provision in prior years | (1,539) | (17) |
| Current – Elsewhere | 503 | 563 |
| Deferred tax | 1,200 | 1,000 |
| Total tax charge for the year | <u>4,017</u> | <u>4,187</u> |

6. **Dividends**

| | 2006 HK\$'000 | 2005 HK\$'000 |
|---|------------------|------------------|
| Interim – HK2 cents (2005: HK0.5 cent) per ordinary share | 8,096 | 2,024 |
| Proposed final – HK4 cents (2005: HK2.5 cents) per ordinary share | 16,193 | 10,120 |
| | <u>24,289</u> | <u>12,144</u> |

The directors recommend the payment of a final dividend of HK4 cents per share in respect of the year ended 31 March 2006 to shareholders whose names appear on the register of members on 23 August 2006. The proposed final dividend for the year is based on the number of shares in issue as at the reporting date, and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

7. **Earnings per share attributable to ordinary equity holders of the company**

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to equity holders of the Company of HK\$59,901,000 (2005 as restated: HK\$29,746,000) and the weighted average number of 404,820,000 (2005: 404,820,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the net profit for the year attributable to equity holders of the Company of HK\$59,901,000 (2005 as restated: HK\$29,746,000) and 405,880,919 (2005: 405,927,239) ordinary shares, being the weighted average number of shares outstanding during the year, adjusted for the effects of the dilutive potential ordinary shares outstanding during the year.

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

| | 2006 | 2005 |
|--|--------------------|--------------------|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 404,820,000 | 404,820,000 |
| Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all options outstanding during the year | 1,060,919 | 1,107,239 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>405,880,919</u> | <u>405,927,239</u> |

8. **Accounts receivable**

The Group's trading terms with its customers are mainly on credit, except for new customers, where cash on sale or payment in advance is normally required. The credit period is generally for a period of one month, extending up to two months for certain well-established customers.

The ageing of the Group's accounts receivable is analysed as follows:

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--------------|------------------|------------------|
| 0 – 30 days | 36,208 | 50,738 |
| 31 – 60 days | 7,382 | 5,864 |
| 61 – 90 days | 4,407 | 8,038 |
| Over 90 days | 5,433 | 4,211 |
| | <u>53,430</u> | <u>68,851</u> |

9. **Accounts and bills payable, accrued liabilities and other payables**

| | Group 2006 HK\$'000 | 2005 HK\$'000 |
|--|---------------------------|------------------|
| 0 – 30 days | 31,374 | 29,664 |
| 31 – 60 days | 14,458 | 14,593 |
| 61 – 90 days | 4,422 | 15,630 |
| Over 90 days | 3,500 | 5,097 |
| Accounts and bills payable | 53,754 | 64,984 |
| Accrued liabilities and other payables | 26,471 | 26,306 |
| | <u>80,225</u> | <u>91,290</u> |

The accounts and bills payable and other payables are non-interest-bearing and are normally settled within credit terms of two months, extending up to three months.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 17 August 2006 to Wednesday, 23 August 2006 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31 March 2006 and for attending the annual general meeting, all transfer 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 16 August 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Amid the adverse operating environment, the Group was able to achieve satisfactory growth in the toys division and steady performance in the motors division.

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 ordinary 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.

Toys

The toys division has achieved a strong growth in segment results on a slightly improved turnover despite the continued challenging and competitive market conditions.

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 utilization 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 minimize 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 capitalize 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 minimize 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.

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.

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

Materials development

This more stable business segment is highly complementary to the cyclical toys and motors divisions. The broader customer base achieved by the division has bolstered sales but 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.

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 stabilized, 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, the Directors 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 will remain the main thrust of the Group's future growth and expansion strategy.

Internally, the Group's efforts to enhance operating efficiency have made a visible impact on the bottom-line.

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 maximize the return for shareholders.

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%).

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 year.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICE

In the opinion of the directors, the Company has complied with the code provision set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange of Hong Kong Limited throughout the year ended 31 March 2006 except for the deviations from certain code provision of the CG Code which are as follows:-

Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer shall be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing. The Company has only adopted written terms of reference in relation to the division of responsibilities between the Chairman and Chief Executive Officer on 28 September 2005. Furthermore, the Company has only separated the roles of Chairman and Chief Executive Officer on 28 September 2005 by retaining Cheng Chor Kit as the Chairman and appointing Chui Pak Shing as the Chief Executive Officer.

The non-executive directors of the Company were previously not appointed for specific terms as required by the code provision A.4.1. For the purposes of complying with the CG Code, the non-executive directors of the Company have been appointed for specific terms on 28 September 2005.

Under the code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. The Company has only set up the remuneration committee on 28 September 2005.

AUDIT COMMITTEE

The Company has an audit committee with terms of reference revised to align with the provisions of the CG Code as set out in Appendix 14 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises all the three independent non-executive directors of the Company and has reviewed the audited consolidated financial statements for the year ended 31 March 2006.

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE WEBSITE

A detailed results announcement containing all the information required by paragraph 45(1) to 45(3) 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, 24 July 2006

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the Members of Kin Yat Holdings Limited (the "Company") will be held at Lotus Room, 2/F., Regal Oriental Hotel, 30-38 Sa Po Road, Kowloon City, Kowloon, Hong Kong on Wednesday, 23 August 2006 at 3:00 p.m. for the following purposes:

- To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31 March 2006;
- To declare a final dividend;
- To elect Directors and to fix their remuneration;
- To appoint Auditors and to authorise the Board to fix Auditors' remuneration;
- To consider as special business and, if thought fit, pass with or without amendments, the following resolution as a special resolution:

"**THAT** the Bye-laws of the Company be amended by deleting the existing Bye-law 86(4) in its entirety and substituting therefor the following:-

"86(4). Subject to any provision to the contrary in these Bye-laws the Members may, at any general meeting convened and held in accordance with these Bye-laws, by ordinary resolution remove a Director at any time before the expiration of his period of office notwithstanding anything in these Bye-laws or in any agreement between the Company and such Director (but without prejudice to any claim for damages under any such agreement) provided that the Notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention so to do and be served on such Director fourteen (14) days before the meeting and at such meeting such Director shall be entitled to be heard on the motion for his removal."

- To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT**

- the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to purchase its Shares, subject to and in accordance with the applicable laws, be and is hereby generally and unconditionally approved;
- the total nominal amount of Shares of the Company to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of passing of this resolution and the said approval shall be limited accordingly; and
- for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:
 - the conclusion of the next annual general meeting of the Company;
 - the revocation or variation of the authority given under this resolution by ordinary resolution passed by the Company's shareholders in general meetings; and
 - the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or any applicable laws to be held.;"

- To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT**

- the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to issue, allot and deal with additional Shares of the Company and to make or grant offers, agreements and options which would or might require Shares to be allotted, issued or dealt with during or after the end of the Relevant Period (as defined below), be and is hereby generally and unconditionally approved, provided that, otherwise than pursuant to (i) a rights issue where shares are offered to shareholders on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) or (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries and/or any eligible grantee pursuant to the scheme of shares or rights to acquire shares of the Company, or (iii) any scrip dividend scheme or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-laws, the total nominal amount of additional Shares to be issued, allotted, dealt with or agreed conditionally or unconditionally to be issued, allotted or dealt with shall not in total exceed 20% of the total nominal amount of the share capital of the Company in issue on the date of passing of this resolution and the said approval shall be limited accordingly; and
- for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:
 - the conclusion of the next annual general meeting of the Company;
 - the revocation or variation of the authority given under this resolution by ordinary resolution passed by the Company's shareholders in general meetings; and
 - the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or any applicable laws to be held.;"

- To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT** the general mandate granted to the Directors of the Company pursuant to resolution no. 7 above and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by the total nominal amount of shares in the capital of the Company repurchased by the Company pursuant to the exercise by the Directors of the Company of the powers of the Company to purchase such Shares since the granting of such general mandate referred to in the above resolution no. 6, provided that such amount shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of passing of this resolution."

By order of the Board
Cheng Chor Kit
Chairman

Hong Kong, 24 July 2006

As at the date hereof, the Board consists of four executive directors, Mr. Cheng Chor Kit, Mr. Fung Wah Cheong, Mr. Yuen Wai Kwong and Mr. Wong Kin Chung and three independent non-executive directors, Mr. Chung Chi Ping, Roy, Mr. Wong Chi Wai, Albert and Ms. Sun Kwai Yu, Vivian.

Notes:

- The Register of Members of the Company will be closed from Thursday, 17 August 2006 to Wednesday, 23 August 2006 (both days inclusive), during which period no transfer of Shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31 March 2006 and for attending the Annual General Meeting, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 16 August 2006.
- A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, in the event of a poll, vote on his behalf. A proxy need not be a member of the Company.
- The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the Meeting.