

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31st March, 2006, the turnover of HKC International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") increased by 3% to HK\$1,002 million (2005: HK\$974 million) and net profit significantly increased by 5.5 times from HK\$11 million to HK\$72 million in comparison with the last year. The drastic increase in profit was due to the disposal of certain properties recording a profit of HK\$69 million (2005: Nil).

The gross profit margin was improved to 11.4% as compared with 10.6% reported last year. The operation of new subsidiaries and provision for impairment of trade debtors during the year led to the increases in selling and distribution expenses and administrative and other operating expenses.

SALES OF MOBILE PHONES

The sale of mobile phones continued to be the Group's major core business for the year. The turnover grew to HK\$916 million (2005: HK\$899 million). However, due to the adverse market situations faced by the overseas subsidiaries of the Company and provision for impairment of trade debtors, the segment profit decreased to HK\$9.8 million (2005: HK\$22 million).

SALES OF BUSINESS SOLUTIONS

During the year under review, the turnover was HK\$86 million, an improvement of 17% from last year (2005: HK\$74 million). The division suffered loss of HK\$2.6 million compared with the profit of HK\$0.7 million last year. The downturn in performance was due to substantial resources being input into the research and development of network telephone system, Radio Frequency Identification ("RFID") project and software development.

PROPERTY INVESTMENT

Gross rental income generated from the investment properties decreased by 63% to HK\$1.3 million (2005: HK\$ 3.5 million) due to sales of certain properties during the year while the loss decreased from HK\$1.3 million to HK\$0.1 million when compared with last year.

PROSPECTS

The sales of mobile phones will continue to be the Group's major core business. Going forward, the Group will diversify its business into product development, RFID projects and software development through its subsidiaries locally and regionally.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to maintain a strong financial position. As at 31st March, 2006, the Group's bank balances and cash amounted to approximately HK\$66 million (2005: HK\$41 million) while the bank borrowing was HK\$28 million (2005: HK\$22 million). The long term bank borrowing was denominated in Hong Kong dollars. The gearing ratio was 11% (2005: 11%) which is expressed as a percentage of total borrowings to shareholders' funds.

As substantial portion of transactions are dominated in Hong Kong Dollar, the Group's exposure to exchange fluctuation is low.

CAPITAL EXPENDITURE

The Group invested HK\$82 million in investment properties, leasehold land and property, plant and equipment during the year. This was financed from internal resources and a HK\$30 million mortgage loan.

EMPLOYEES

As at 31st March, 2006, the total number of employees of the Group was approximately 380 (2005: 300) and the aggregate remuneration of employees (excluding directors' emoluments) amounted to HK\$49 million (2005: HK\$45 million). The remuneration and bonus packages of the employees are based on the individual merits and performance and are reviewed at least annually. There is a share option scheme in place designed to award employees for their performance at the discretion of the directors. The Group maintains a good relationship with its employees.

PLEDGE OF ASSETS

As at 31st March, 2006, the Company's general banking facilities were secured by a bank deposit of HK\$8 million (2005: Nil) and first legal charge on certain leasehold land and buildings and investment properties with aggregate carrying amounts of HK\$77 million (2005: HK\$59 million (as restated)).

CONTINGENT LIABILITIES

As at 31st March, 2006, the Company had provided corporate guarantees of HK\$74 million (2005: HK\$87 million) to secure banking facilities granted to the subsidiary companies.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 6th September, 2006 to Friday, 8th September, 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, should be lodged with the Company's share registrars in Hong Kong, Pilare Limited, 10th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 5th September, 2006.

APPRECIATION

The board of directors of the Company (the "Board") would like to extend its sincere gratitude to the Company's shareholders, business counterparts and all management and the staff members of the Group for their contribution and continued support during the year.