

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

The Group's turnover was HK\$2 billion for the first half of 2005, representing an increase of approximately 11% compared to the corresponding period last year mainly due to the growth in business of the OEM Manufacturing Division. The Group's profit attributable to shareholders was HK\$85.5 million, representing an increase of approximately 38% over the same period prior year.

The Group's Industrial Products Trading Division recorded a decline in turnover and operating profits of approximately 7% and 22%, respectively, for the first half of this year as compared to the same period last year. This was mainly due to a fall in the sales cycle following the record sales in 2004. Although the operations of the Division in PRC managed to achieve a modest increase in sales, the operating profits dropped as compared to the same period last year because of the pressure on profit margins. The operations in Hong Kong and Singapore registered general declines both in sales and operating profits. However, the demand for the more sophisticated product ranges distributed by the Group's Taiwan operations was very strong, driven by the strong growth in the high-end electronics market in Taiwan. As a result, the Taiwan operations saw an improvement of approximately 63% in operating profit in the first half of 2005, as compared to the same period last year.

The turnover of the OEM Manufacturing Division was HK\$1.2 billion in the first half of 2005, representing an increase of approximately 29% compared to the same period in the prior year. This was mainly due to more production orders being secured as a result of the Group's efforts in offering value-adding services to customers. The operating profit was HK\$13.9 million for the first half of this year, compared to operating losses in the same period last year.

FINANCE

The Group has committed bank facilities and other financing facilities totaling HK\$1,565 million, of which HK\$911 million were drawn down as at 30 June, 2005.

As at 30 June, 2005, the Group's consolidated net borrowings amounted to HK\$670 million and its shareholders' equity amounted to HK\$745 million, resulting in a gearing ratio of 89.9%.

The Group has further enhanced its liquidity by obtaining a HK\$380 million four-year syndicated loan in April 2005. Part of the proceeds have been

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used to refinance the syndicated loan that was drawn down during the second half of 2003, and the balance was used for general working capital.

Most of the Group's sales are conducted in the same currencies as its purchase transactions. Foreign exchange contracts were entered into to hedge against exchange rate exposures where necessary.

CAPITAL STRUCTURE

There had been no material change in the capital structure of the Group since 31 December, 2004.

EMPLOYEES

As at 30 June, 2005, the Group had a total of 6,167 employees, of whom 279 were based in Hong Kong, 5,659 in the PRC and 229 overseas. The remuneration packages of the Group's employees are mainly based on their performance and experience, taking into account current industry practices. In addition to the provision of a provident fund scheme, medical allowance, in-house and external training programs, discretionary bonuses and share option scheme are also available to employees based on their performance. The remuneration policy and packages of the Group's employees are reviewed regularly.

PROSPECTS

The tough market environment is expected to affect the performance of the Group's Industrial Products Trading Division for the rest of this year. However, it is expected that operations in Taiwan will continue to perform well in the second half of this year.

With the Group's continuous efforts in advancing its technology level and offering value-adding services to customers, it is expected that the Group's OEM Manufacturing Division will secure more orders for the rest of this year.

On behalf of the Board, I wish to thank all employees for their dedication, support and commitment to the Group throughout the period.

By Order of the Board
Wong's Kong King International (Holdings) Limited
Byron Shu-Chan Ho
Director

Hong Kong, 15 September, 2005