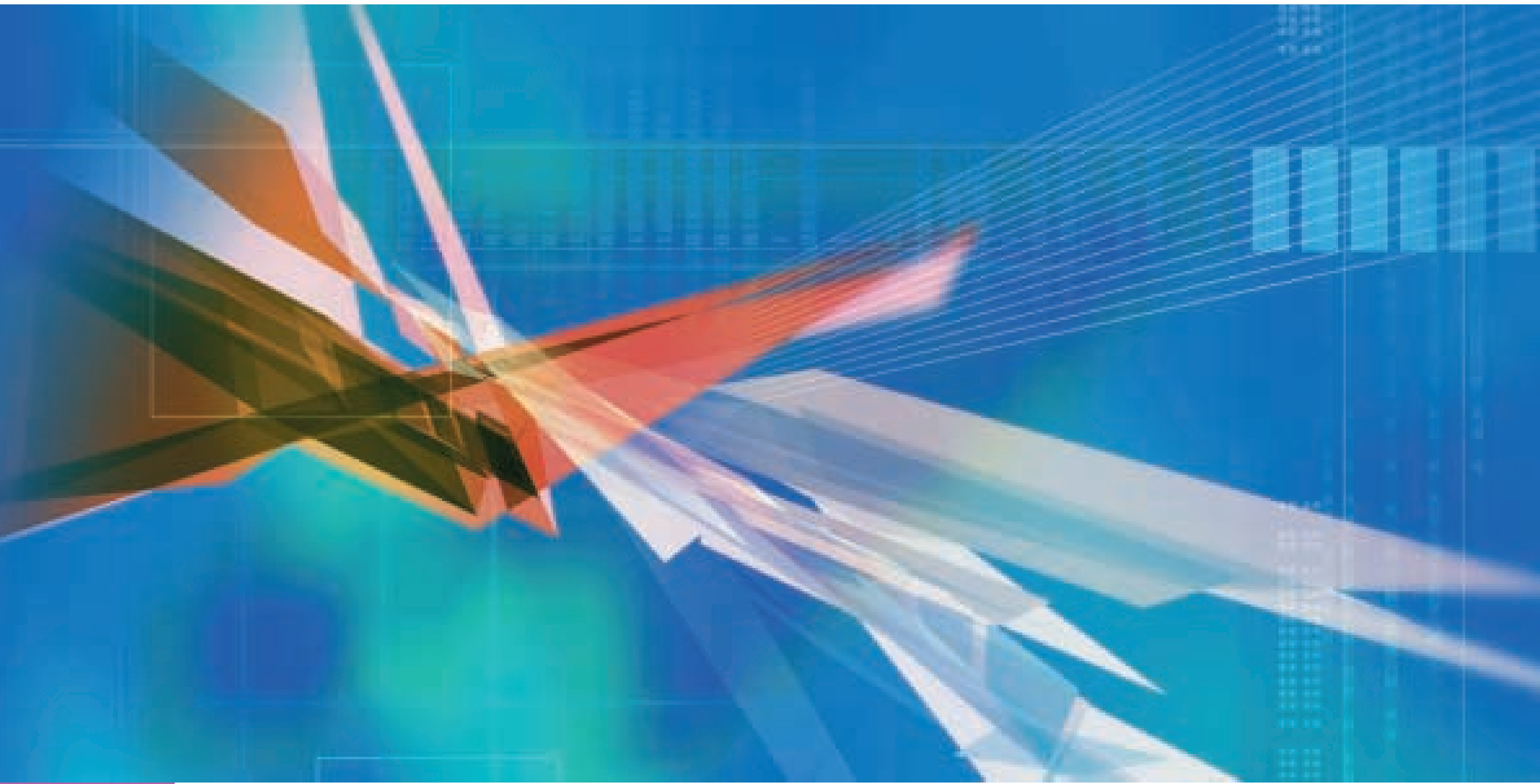
Management Discussion and Analysis



Dear Shareholders,

On behalf of the Board of Directors (the "Directors") of CEC International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), I am pleased to present the fifth annual report of the Group since the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 15th November 1999.

RESULTS

The following summarises the results of the Group for the year ended 30th April 2004:

– Turnover climbed 9.7% to HK$491,663,000 (2003: HK$448,155,000);

– Profit attributable to shareholders was HK$15,857,000 (2003: loss attributable to shareholders of HK$5,159,000);

– Basic earnings per share was HK2.29 cents (2003: basic loss per share of HK0.75 cent);

– Proposed final dividend of HK0.5 cent per share (2003: Nil); and

– Net cash inflow from operating activities increased 101% to a record HK$95,757,000 (2003: HK$47,690,000).

DIVIDEND

No interim dividend was declared for the year ended 30th April 2004 (2003: Nil).

The Directors have resolved to recommend the payment of a final dividend of HK0.5 cent per share (2003: Nil) for the year ended 30th April 2004 to shareholders whose names appear on the register of members of the Company on 27th September 2004.

The proposed final dividend of HK0.5 cent per share, the payment of which is subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company to be held on Monday, 27th September 2004, is to be payable on Tuesday, 5th October 2004.

CLOSURE OF REGISTER OF MEMBERS

In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:00 p.m. on Tuesday, 21st September 2004. The register of members of the Company will be closed from Wednesday, 22nd September 2004 to Monday, 27th September 2004, both dates inclusive, during which period no transfer of shares will be effected.

BUSINESS REVIEW

Overview

During the year, the Group reaped the fruits of its investments in the past few years to gradually launch its products to the markets. The enhanced customers' recognition in the Group's power-supply coils products and investments led to a steady increase in the turnover of the Group for the year. With the Group's strategies in curtailing the non-core business and adopting a persistent customer-oriented approach, the Group has been reaping the benefits of its previous investments, and achieved a turnaround to profit for this financial year.

For the year ended 30th April 2004, the Group's turnover increased from HK$448,155,000 for the same period last year to HK$491,663,000, up 9.7%, and the Group's gross profit also rose to HK$123,647,000 from HK$112,229,000 last year. Earnings before interest, tax, depreciation and amortisation ("EBITDA") was HK$97,939,000 (2003: HK$82,280,000). Operating profit was HK$38,754,000 (2003: HK$14,624,000), and profit attributable to shareholders was HK$15,857,000 (2003: loss of HK$5,159,000).

Management Discussion and Analysis

	Turnover			
	2004		2003	
	HK$'000	**%**	HK$'000	%
Coils manufacturing	**430,854**	**87.6**	355,879	79.4
Electronic components trading	**28,913**	**5.9**	55,173	12.3
Capacitors manufacturing	**15,407**	**3.2**	35,271	7.9
Ferrite powder manufacturing	**12,779**	**2.6**	–	0.0
Information technology services	**3,499**	**0.7**	1,832	0.4
Other income	**211**	**0.0**	–	0.0
	491,663	**100.0**	448,155	100.0

Business Restructure and Focus on Core Business

During the year, the Group has been focusing on developing its core business as stated in the Company's Annual Report of last year. The Group devoted to enhancing the operating efficiency, shrinking and restructuring under-performing projects, in particular, the further integration of the manganese-zinc ferrite production facilities into the coils manufacturing business providing more room for a profit growth to the Group. This let the Group slacken the hectic pace of business development as previously planned, such as the development of trading business .

Performance of the Group's Business

Coils Manufacturing Segment

During the year, the Group strictly implemented the operating strategy formulated last year to focus on developing its core business – coils manufacturing. The Group's turnover for coil manufacturing segment was HK$430,854,000 for this financial year (2003: HK$355,879,000), which was mainly attributable to the Group's continued efforts in actively exploring markets, meeting the customers' needs and developing new coil products.

For the year ended 30th April 2004, the gross profit of the Group's coils manufacturing segment rose by 12.3% as compared with that of last year to HK$117,925,000 (2003: HK$105,044,000), while the gross profit margin was 27.4% (2003: 29.5%). The decrease in gross profit margin was due to the soaring prices for raw materials. To enhance the gross profit margin, the Group is actively improving the production workflow and materials utilization.

The Group produces a full range of coil products which are applicable to various types of electronic and electrical consumer products, such as audio-visual, telecommunication, home electrical appliances, toys, computers, office equipment, automobiles, lighting facilities and power-supply devices . The power-supply coils products (mainly switching-mode transformers and line filters), which have been actively developed by the Group in the past few years, reported a substantial growth for the year. The turnover for power-supply customers for the year ended 30th April 2004 was HK$73,212,000 (2003: HK$33,305,000) with a rise of 120% as compared with that of last year, which accounted for 17% of the turnover for the coils manufacturing segment. The increment mainly contributed from the cell phone power-supply market.

Having established its base in Mainland China over 20 years, the Group can be benefited from the steady growth in Mainland China in the recent years, which provides a greater potentiality for the

Group to seek reliable customers. In the meantime, an increasing number of overseas customers opt to seek suppliers in Mainland China to furnish their purchases, which directly provides more business opportunities in Mainland China. During the year, the turnover of the Group's coils manufacturing segment in Mainland China registered a significant growth. The Group also has been proactively exploring European markets in the recent years, with a good relationship established with European enterprises which possess renowned brands. The Group has been strengthening the co-operation with them and meeting their requirements on an all-round basis, in particular, the possible setting up its production facilities in the regions as specified by such customers. As a result, a stable growth in the turnover of this segment could be achieved.

Capacitors Manufacturing Segment

During the year under review, the operation of capacitors manufacturing segment suffered from a loss which was due to the inappropriate investment strategies, the lack of in-depth knowledge on the capacitor products which resulted in an incompatible sales strategy, reliance on a single agent and overlooking the direct sales channel. The Group has decided to integrate the capacitors business into the coils segment adopting management style of the Zhongshan plant in operation with a view to achieving better coordination as well as restructuring the operation of the capacitors manufacturing segment.

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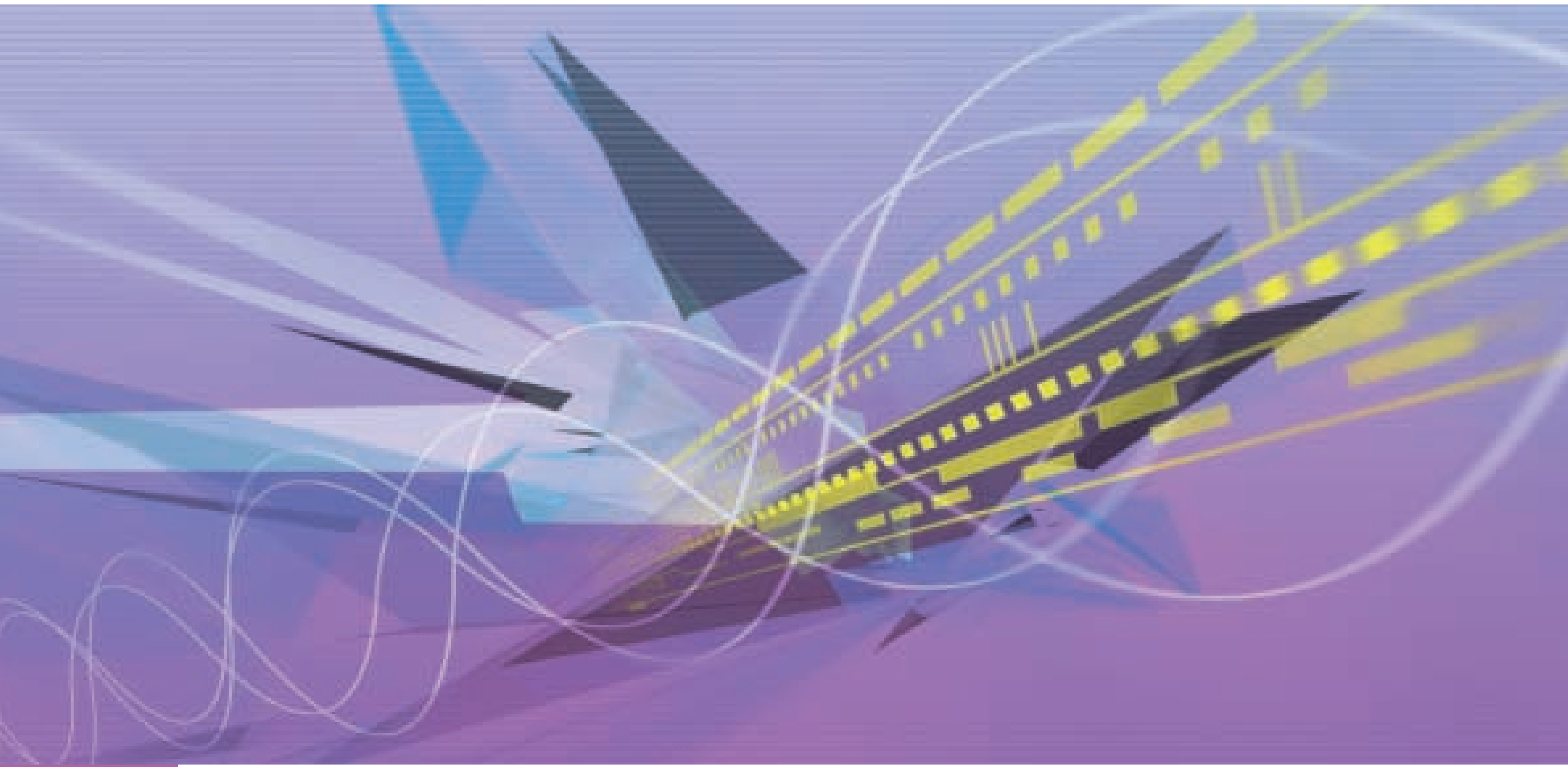


Ferrite Powder Manufacturing

It was the first time for the Nanjing Project, after the completion of its plant infrastructure and production equipment installation at the end of 2003, recorded a turnover of HK$12,779,000 for the year ended 30th April 2004 (2003: Nil). Nanjing Guo Zhong Magnetic Material Co., Ltd. ("Nanjing Guo Zhong"), a wholly-owned subsidiary of the Group and the first company of the Group engaging in powder manufacturing independently, is currently working in matching equipment and improving production workflow in order to increase the production output and efficiency. The success of Nanjing Guo Zhong serves as a paradigm and indicator for the development of the Group's magnetic powder manufacturing business in future. Meanwhile, the business development of Nanjing Guo Zhong and Kunshan CEC-Ferrite Manufacturing Co., Ltd., a wholly-owned subsidiary of the Group, have laid a solid foundation for the Group to develop the business in eastern Mainland China.

Non-core Business

For the year ended 30th April 2004, the Group's electronic components trading segment recorded a turnover of HK$28,913,000 (2003: HK$55,173,000), with a decrease of 47.6% as compared with the same period of last year. The Group has determined to cease the business during the interim of the next financial year. Meanwhile, the information technology segment reported a turnover of HK$3,499,000 for the current year (2003: HK$1,832,000), up 91% as compared with that of last year. The Group will hereafter continue to shrink these two non-core businesses.

FINANCIAL REVIEW

Overview

For the year ended 30th April 2004, the Group recorded profit attributable to shareholders of HK$15,857,000, earnings per share was HK2.29 cents (2003: loss attributable to shareholders of HK$5,159,000, loss per share was HK0.75 cent).

For the year ended 30th April 2004, the Group did not make any impairment loss on intangible assets, but made a one-off impairment loss on intangible assets amounting to HK$8,940,000 in 2003.

Financial Management

Funds Surplus and Liabilities

As at 30th April 2004, the Group's aggregate banking facilities granted from banks amounted to HK$385,620,000 (2003: HK$539,426,000), of which HK$67,615,000 was remain unutilised (2003: HK$222,320,000). Decrease in the aggregate amount of banking facilities was due to the effectiveness on the manganese-zinc ferrite equipment invested by the Group for more than two years. It is believed that the cash inflow generated from operating activities in future will be sufficient to meet the needs for short-term funds.

As at 30th April 2004, the cash and bank deposits (denominated mainly in Hong Kong dollars, United States dollars, Renminbi, Japanese yen, Singapore dollars and New Taiwan dollars) were HK$49,564,000 (2003: HK$44,240,000), up 12%. The banking facilities were secured by mortgages on the Group's certain land and buildings, pledges of the Group's bank deposits, investment and machinery, and corporate guarantees provided by the Company and its certain subsidiaries. In addition, the Group is required to meet certain restrictive financial covenants with the major banks. As at 30th April 2004, the Group could comply with such financial ratios, which indicates that the Group's financial position was satisfactory, details of which are as follows:

	2004 **HK$'000**	2003 HK$'000
Banking facilities	**385,620**	539,426
Utilised banking facilities	**(318,005)**	(317,106)
Unutilised banking facilities	**67,615**	222,320
Cash and bank deposits	**49,564**	44,240

As at 30th April 2004, the Group's total borrowings were HK$280,273,000 (2003: HK$306,370,000), down 8.5%, of which HK$204,376,000 (2003: HK$205,282,000), down 0.4%, was current, and HK$75,897,000 (2003: HK$101,088,000), down 24.9%, was non-current and will be repayable within a period of more than one year but not exceeding five years. The Group's gearing ratio was 0.89 as at 30th April 2004 (2003: 1.03). Furthermore, contingent liabilities as at the same date amounted to HK$38,052,000 (2003: HK$25,286,000), up 50.5%, of which HK$35,568,000 (2003: HK$25,286,000) was factoring of trade receivables with recourse.

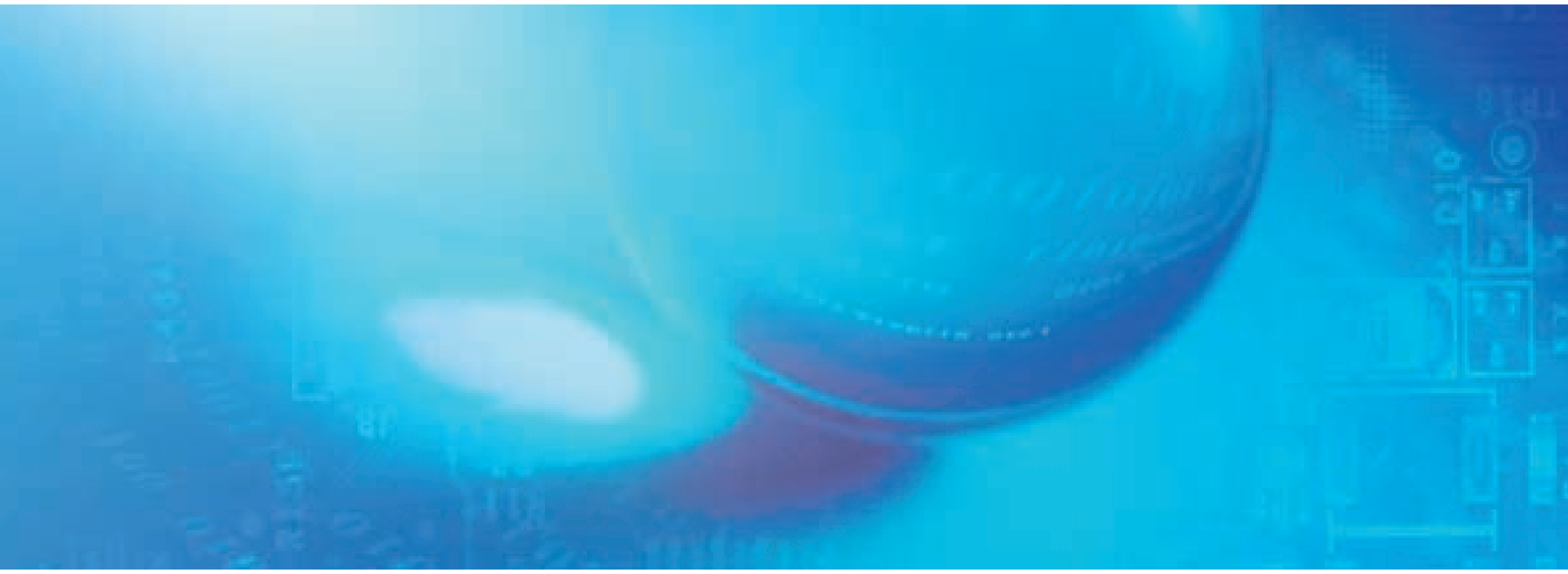
Financial Resources and Capital Structure

The Group's net cash inflow for the year ended 30th April 2004 amounted to HK$18,368,000 (2003: HK$1,512,000). The increase was primarily attributable to the substantial increase in the cash inflow from operating activities. During the year, the cash inflow from operating activities was HK$95,757,000 (2003: HK$47,690,000), up 101% as compared with that of last year. One of the main financing activities during the year was a three-year transferable term loan facility agreement for an aggregate amount of HK$165,000,000 made between the Company and a group of banks on 30th April 2003. This facility improved the Group's debt structure and increased cash inflow to a great extent. On the other hand, capital expenditure on fixed assets for the year increased to HK$55,425,000 (2003: HK$26,709,000). Such increase included the expenditure on the construction

of a new production plant in Nanjing and the investment on production equipment in Zhongshan plant. Besides, the Group also continued to repay certain balance of bank loans for reducing the Group's net gearing ratios.

Cash Flow Summary

	2004 **HK$'000**	2003 HK$'000
Net cash inflow from operating activities	**95,757**	47,690
Net cash outflow from investing activities	**(45,530)**	(17,567)
Net cash outflow from financing activities	**(31,449)**	(29,554)
Exchange adjustment	**(410)**	943
Increase in cash and cash equivalents	**18,368**	1,512



Charges on Assets

As at 30th April 2004, certain assets of the Group with an aggregate carrying value of HK$69,671,000 (2003: HK$94,019,000) were pledged to secure banking facilities and finance lease.

Exchange Risks

The Group's business is mainly conducted in Mainland China, Hong Kong and South-east Asia and the major revenue generating currencies and major currencies in purchase commitments primarily denominated in Hong Kong dollars, Renminbi and United States dollars. As such, the management is of the view that it is not necessary for the Group to purchase any foreign exchange futures or options contract to hedge against exchange risks.

The Group's borrowings are mainly settled in Hong Kong dollars, Renminbi and United States dollars. The management believes that there is no substantial exchange risk.

FUTURE PLAN AND PROSPECTS

The management of the Group realises the importance of grasping market opportunities. To achieve this, product quality and environmental protection are also crucial factors, in addition to the Group's high production capacity. Meanwhile, the Group adopts a customer-oriented approach to actively manufacture tailor-made products for meeting the customers' requirements and market demand.

The Group anticipates that by optimizing the capacity of the manganese-zinc ferrite production equipment to manufacture switching-mode transformer, the increase in sales of the transformers is conducive to enhancing the Group's economies of scale which in turn increases the return to shareholders. As the Group has a well-established partnership with several international manufacturers of cell phone chargers for years, the turnover for the power-supply industry to the total turnover of the coils manufacturing segment rose from 9.4% to 17% as compared with that of last year, with a total of 42 million sets of switching-code transformers sold. As such, the Group will continue to implement the existing marketing strategy and to develop brand-new transformers technology and production methods in terms of technology and quality with a view to meeting the ever-changing demand of customers. Regarding the infrastructure, the Group reached an agreement with the local government in Mainland China for purchasing, for the purpose of the Group's development in the coming three years, a land parcel of 35,000 square meters adjoining the Group's main plant in Zhongshan. To maintain the Group's competitiveness, the development plan for the land includes the following areas: (1) constructing a new ferrite core plant to replace the old workshop which has been used for more than 10 years; (2) expanding the usable space of other assembling workshops; and (3) providing space for relocation of the metal and plastic workshops.

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In recent years, more and more countries (including the European countries, the United States and Japan) have been adopting more stringent environmental protection standards for the raw materials of electronic products. As such, the Group will obtain accreditation on various environmental protection to meet the customers' development needs. During the year, the Group successfully obtained the accreditation of Green Partner, issued by several Japanese corporations. The Group contemplates to complete the ISO 14001 Environmental Management Standard Accreditation by the end of 2004 and to impose stringent supervision and control on the use of chemicals to conform to the Restriction of Hazardous Substances in Electrical and Electronic Equipment (RoHS), which will be introduced in Europe in July 2006.

CORPORATE DEVELOPMENT AND GOVERNANCE

During the second half of this financial year, the Group gradually relocated certain organisation structure in Hong Kong and daily operation work to its main plant in Zhongshan. Better synchronized operation was achieved at the preliminary stage. Therefore, the Group will continue to adopt the full China-focused operating model as stated in the Third Quarterly Report of this financial year. It is expected that only the finance department and information technology department will still serve in Hong Kong to back up the Group in the coming year.

In addition, to protect the interests of the investors, creditors and shareholders, following the establishment of an internal audit department during the third quarter of this financial year, the Group will continue to improve the professional standard of all the accounting and finance management staff. Meanwhile, the internal audit department will keep on implementing the internal audit plan as scheduled, scrutinizing and reinforcing the Group's internal control and corporate governance.

The "Executive Trainee Program", a crucial investment in human resources in the Group, aims at training and incubating quality university graduates and tertiary students, bringing in new ideas and young talents and thereby developing a new generation of the management. Up to now, the Program, which was launched in November 2003, has been running satisfactorily. The Group will continue putting more resources into the Program to generate the desirable results.

EMPLOYEES AND REMUNERATION POLICY

The Group had approximately 6,500 employees as at 30th April 2004. The remuneration of the employees is determined by reference to market benchmark, individual performance and work experience, subject to review, while bonus entitlement depends on the Group's results and employee's individual performance.

In 2000, the Company granted share options to certain employees of the Group to subscribe the Company's shares.

In conclusion, the Group will adopt a prudent approach in assessing the results and prospects of the next financial year. Leveraging on the huge investment made in the past few years and adopting customer-oriented approach, the Group will further enhance the efficiency of utilization and application rate in respect of the assets to enhance the return to shareholders.

ACKNOWLEDGEMENTS

Finally, on behalf of the Board of Directors, I express my heartfelt gratitude to all shareholders and all investors for their continued support to the Group, and the dedicated staff who contributed to the sustained growth of the Group during the year. I also express my thanks to all customers, suppliers and business partners who supported and trusted the Group during the year.

By Order of the Board
Lam Wai Chun
Chairman

Hong Kong, 16th August 2004