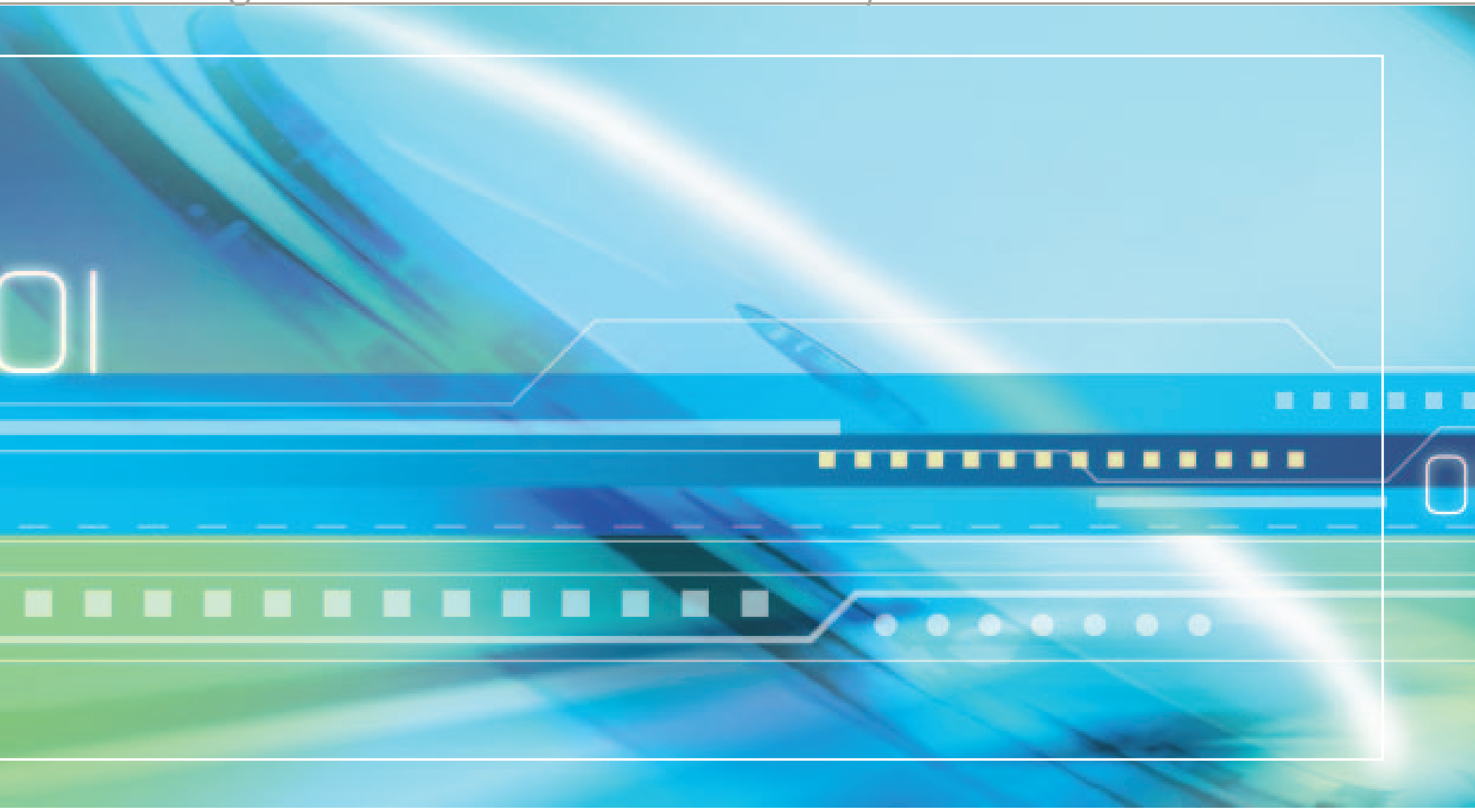
Management Discussion and Analysis



Dear Shareholders,

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

2004/2005 SUMMARY OF RESULTS

– Turnover climbed 12.7% to HK$554,291,000 (2004: HK$491,663,000);

– Profit attributable to shareholders was HK$19,530,000 (2004: HK$15,857,000);

– Basic earnings per share was HK2.82 cents (2004: HK2.29 cents);

– Proposed final dividend of HK0.7 cent (2004: HK0.5 cent) per share;

– Net cash inflow from operating activities increased by 21.3% to HK$116,171,000 (2004: HK$95,757,000); and

– Gross profit margin decreased by 2.5% to 22.6% (2004: 25.1%).

Management Discussion and Analysis

DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

No interim dividend was declared for the year ended 30th April 2005 (2004: Nil).

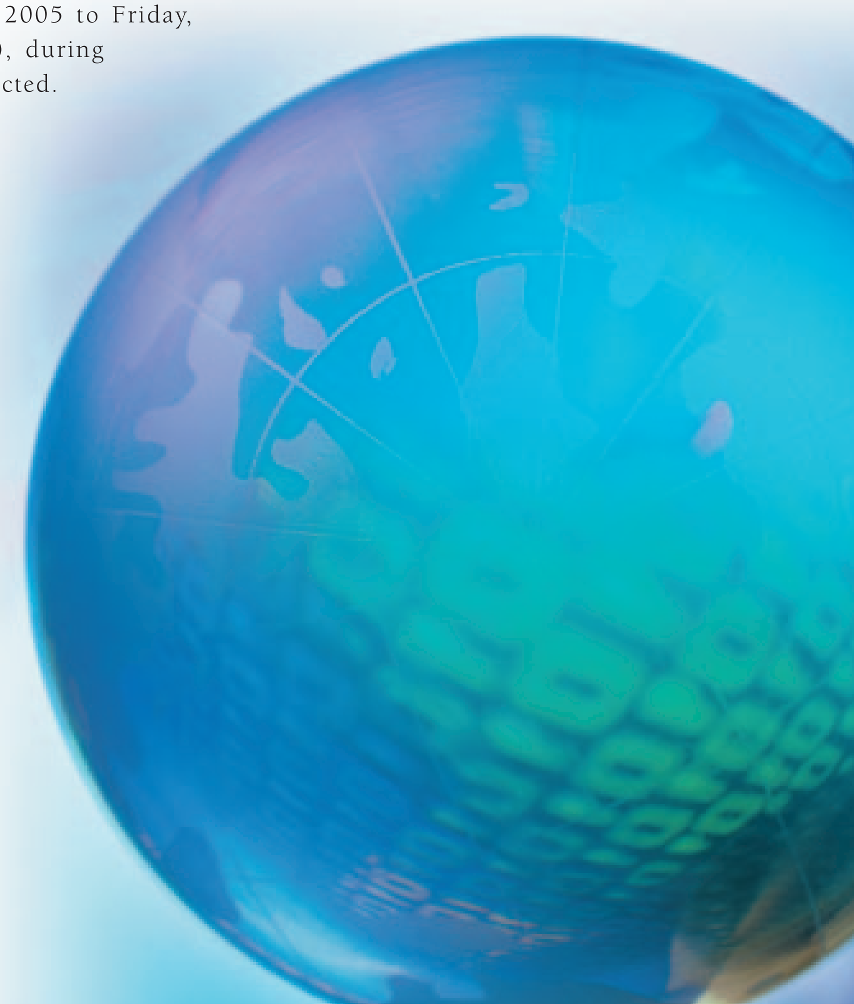
The Board has resolved to recommend the payment of a final dividend of HK0.7 cent (2004: HK0.5 cent) per share for the year ended 30th April 2005 (the "Proposed Final Dividend") to shareholders whose names appear on the register of members of the Company on 23rd September 2005. The Proposed Final Dividend will be paid in cash with an option to receive new fully paid shares in lieu of cash in respect of part or all of their dividend entitlement (the "Scrip Dividend Scheme").

A circular containing details of the Scrip Dividend Scheme, together with a form of election, will be sent to shareholders of the Company in due course. The issue of new shares under the Scrip Dividend Scheme (the "Scrip Shares") is subject to the shareholders' approval at the forthcoming Annual General Meeting of the Company to be held on 23rd September 2005 and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Scrip Shares. The dividend warrants and the share certificates in respect of the Scrip Dividend Scheme will be sent to shareholders on or before 24th October 2005.

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 Thursday, 15th September 2005. The register of members of the Company will be closed from Friday, 16th September 2005 to Friday, 23rd September 2005 (both dates inclusive), during which period no transfer of shares will be effected.

DIVIDEND POLICY

The Board has resolved to revise the dividend policy by setting the dividend payout ratio not exceeding 30% of the Group's profit attributable to shareholders for each of the relevant financial year commencing from the next financial year to reward shareholders for their continued support.



Management Discussion and Analysis

BUSINESS REVIEW

Overview

During the year ended 30th April 2005, the Group's business posted a steady growth to record a turnover of HK$554,291,000 (2004: HK$491,663,000), achieving an increase of 12.7% over that of last year. Gross profit was HK$125,136,000 (2004: HK$123,647,000), with an increase of approximately 1.2%. Gross profit margin decreased to 22.6% (2004: 25.1%) as compared with last year. During the financial year, the Group has been implementing vigorous internal control to improve efficiency, and was dedicated to controlling sales, distribution and general and administrative expenses. The Group's operating profit and profit attributable to shareholders increased to HK$39,293,000 (2004: HK$38,754,000) and HK$19,530,000 (2004: HK$15,857,000) respectively, which have corroborated the effectiveness of the measures that the Group has taken. The Group's *earnings before interest, tax, depreciation and amortisation (EBITDA) climbed to HK$103,945,000 (2004: HK$97,939,000) as well.

* *EBITDA: Operating profit plus depreciation and amortisation*

	Turnover			
	2005		2004	
	HK$'000	**%**	HK$'000	%
Electronic components manufacturing	**549,928**	**99.2**	459,040	93.4
Others	**4,363**	**0.8**	32,623	6.6
	554,291	**100.0**	491,663	100.0

Endeavoring to be an electric coil sub-contracting manufacturer with competitiveness and expansibility

After two-odd years' business restructure and concentration on core business, the turnover of electronic components manufacturing segment for the financial year rose by 19.8% to HK$549,928,000 (2004: HK$459,040,000), which accounted for 99.2% (2004: 93.4%) of the Group's turnover. Although the electronic components manufacturing segment achieved a notable market growth for the financial year, the Group sees a still difficult business environment in the future and expects that the trend for its customers to outsource the electronic component manufacturing and to pursue lower production cost will prevail. The Group has positioned itself as an electric coil sub-contracting manufacturer and has been engaged in providing competitive coil processing and manufacturing services to its customers and major business partners.

Management Discussion and Analysis

The Group's Business Performance

Electronic components manufacturing segment

For the financial year, the turnover of electronic components manufacturing segment (including coils, coils-related accessories and capacitors), the Group's core business, reported HK$549,928,000 (2004: HK$459,040,000), which accounted for 99.2% (2004: 93.4%) of the Group's turnover. The gross profit of this core business rose to HK$123,471,000 (2004: HK$119,929,000) as compared with last year, with gross profit margin of 22.5% (2004: 26.1%). The decrease in gross profit margin was mainly attributable to the persistent high prices of raw materials and the increase in labour cost. Taking copper, nickel oxide and zinc oxide (being the raw materials required for manufacturing coils) as examples, based on the spot copper price, nickel price and zinc price as quoted on London Metal Exchange, these prices as at the financial year-end date have gone up by 21.7%, 49.4% and 24.7% respectively as compared with those as at the same date of last year. Although the Group has been reinforcing the control and improvement of the production flow and craft of coil products with a view to increasing the production yield and effectively lowering the unit cost of materials, the average costs of copper and metal oxide still rose by approximately 9.9% and 10.2% respectively during the financial year.

The Group produces a full range of electronic components, which are applicable globally to audio-visual, telecommunication, home electrical appliances, toys, computers, office equipment, automobiles, lighting facilities and power-supply devices, and provides tailor-made coil solutions for its customers. As the global electronic industry has been boosted by the generally favorable economic environment, various electronic consumer products have achieved desirable growth, which indirectly spurred the overall increase in the demand for electronic components.

As predicted in the Group's annual report of last year, an increasing number of overseas customers have been opting to seek suppliers in Mainland China to furnish their purchases. Analysed by geographical location, the Group's sales recorded growth in all major overseas regions, particularly in Mainland China, South-east Asia and America. During the financial year, turnover from Mainland China rose by 66.4% to HK$182,972,000 (2004: HK$109,976,000). Turnover from other regions (including South-east Asia and America etc.) also increased to HK$34,542,000 (2004: HK$ 15,267,000).

Non-core Businesses

During the financial year, the Group continued its business policy formulated in the previous two years to focus on developing its core business, that is to concentrate its resources on the development of electronic components manufacturing segment, and to shrink the under-performing non-core businesses step by step. For the year ended 30th April 2005, the turnover of the Group's non-core businesses was HK$4,363,000 (2004: HK$32,623,000), down approximately 86.7% as compared with that of last year.

Management Discussion and Analysis

FINANCIAL REVIEW

Overview

For the year ended 30th April 2005, the Group's profit attributable to shareholders was HK$19,530,000 (2004: HK$15,857,000), whilst basic earnings per share was 2.82 cents (2004: 2.29 cents).

Financial Management

Funds Surplus and Liabilities

As at 30th April 2005, the Group's credit facilities granted from banks and financial institutions amounted to HK$652,643,000 (2004: HK$385,620,000), of which HK$386,883,000 (2004: HK$67,615,000) was remain unutilised. The increase in credit facilities was due to the 3-year transferable term loan and revolving credit facility agreement for an aggregate amount of HK$243,000,000 entered into between the Company and a group of banks on 27th April 2005. The facility consists of a term loan of HK$194,400,000, which is applied to prepay all of the Company's outstanding indebtedness under a HK$165,000,000 transferable term loan facility agreement dated 30th April 2003 and the balance thereof and the revolving credit facility for an aggregate amount of HK$48,600,000 under the facility will be used as general working capital of the Group. The facility was drawn down in a lump sum on 30th May 2005. Apart from enhancing the Group's general working capital, the facility can improve the term structure of the Group's borrowings.

As at 30th April 2005, cash and bank deposits (denominated mainly in Hong Kong dollar, United States dollar, Renminbi) was HK$68,649,000 (2004: HK$49,564,000), up 38.5%. The banking facilities were secured by mortgages on the Group's certain land and buildings, pledges of the Group's bank deposits, investment securities, inventories and machineries, and corporate guarantees provided by the Company and its certain subsidiaries. In addition, the Group was required to meet certain restrictive financial covenants with the major banks. As at 30th April 2005, the Group could comply with such financial ratios, which indicates that the Group's financial position was satisfactory.

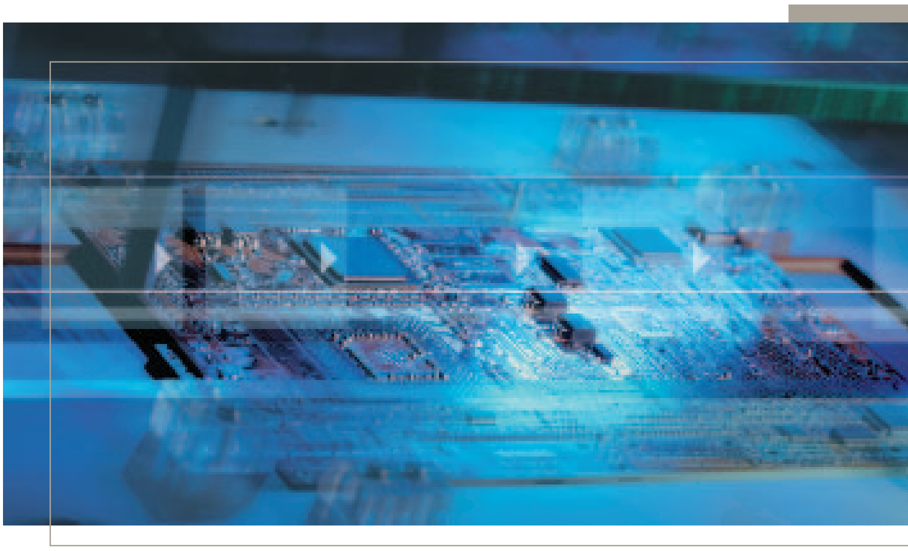
As at 30th April 2005, the Group's total borrowings was HK$238,276,000 (2004: HK$280,273,000), of which HK$214,379,000 (2004: HK$204,376,000) was current; and HK$23,897,000 (2004: HK$75,897,000) was non-current and will be repayable within a period of more than one year but not exceeding five years. As at 30th April 2005, the Group's gearing ratio was *0.71 (2004: 0.89). The above-mentioned figures did not reflect the amount of the aforesaid facility drawn down in May 2005. Furthermore, the contingent liabilities at the same date was HK$21,896,000 (2004: HK$38,052,000), down 42.5%, all of which (2004: HK$35,568,000) was factoring of trade receivables with recourse.

*(*The ratio of (total borrowings) over (shareholders' equity))*

Management Discussion and Analysis

Interest Expenses

For the year ended 30th April 2005, the Group's interest expenses was HK$13,580,000 (2004: HK$17,240,000), down 21.2% as compared with last year. The decline in interest expenses was mainly attributable to the Group's gradual repayment of bank borrowings. Accordingly, the total borrowings during the financial year continued to reduce. Another reason for this was that the banking interest rate in Hong Kong maintained at low level for most of the time of the financial year. However, starting from the fourth quarter of this financial year, both the prime rate and the inter-bank rate tended to ascend, which indicates that the Group will most probably face the soaring capital cost in future. Therefore, the Group will adopt an extremely prudent investment and finance policy.



Financial Resources and Capital Structure

For the year ended 30th April 2005, the Group's net cash inflow amounted to HK$19,235,000 (2004: HK$18,368,000), which mainly came from the continued increase in cash flow from operating activities. During the financial year, cash inflow from operating activities was HK$116,171,000 (2004: HK$95,757,000), with an increase of 21.3% over that of last year. Financing activities during the financial year refer mainly to the aforesaid 3-year transferable term loan and revolving credit facility agreement for an aggregate amount of HK$243,000,000 entered into with a group of banks on 27th April 2005. The facility will improve the Group's debt structure and substantially increase cash inflow from financing activities, which will be reflected in the first quarter results made up to 31st July 2005. On the other hand, the capital expenditure on fixed assets for the financial year reduced to HK$39,896,000 (2004: HK$55,425,000) as compared with that of last year. It is expected that except for certain outlays to be incurred in equipment for manufacturing accessories and construction of infrastructure for the new plant in Zhongshan, new additions of other machineries will continue to shrink, thereby maintaining the Group's capital investment at lower level.

Cash Flow Summary

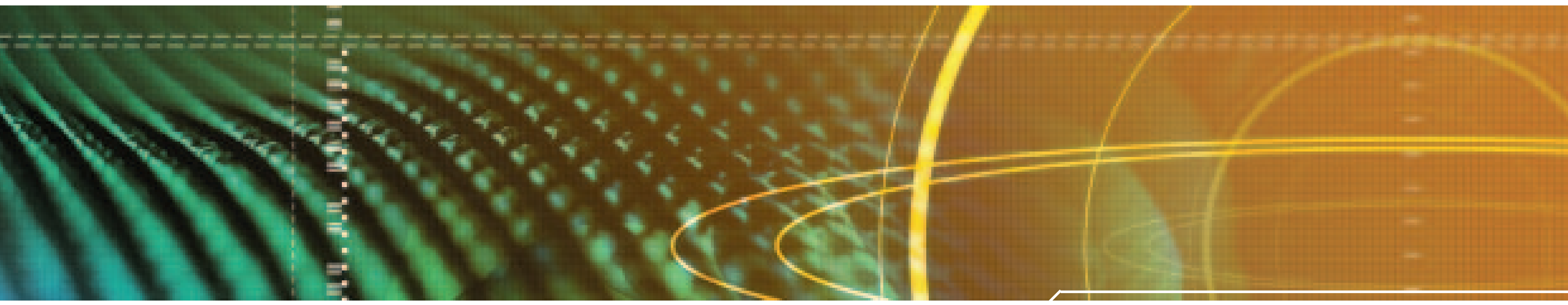
	2005 HK$'000	2004 HK$'000
Net cash inflow from operating activities	**116,171**	95,757
Net cash used in investing activities	**(36,722)**	(45,530)
Net cash used in financing activities	**(59,891)**	(31,449)
Exchange adjustment	**(323)**	(410)
Increase in cash and cash equivalents	**19,235**	18,368

Management Discussion and Analysis

In addition, the Group has adopted a more stringent market expansion strategy for the financial year. In order to utilise resources in a more effective way and to reduce the working capital locked up in inventories, the Group has been striving to control inventories and trade receivables. The effectiveness of internal control has revealed in the faster turnover rates: as at 30th April 2005, the Group has recorded shorter trade receivables turnover (before factoring), inventories turnover and trade payables turnover of 82 days, 60 days and 45 days (2004: 87 days, 83 days and 55 days) respectively.

Areas for improvement

In recent years, the Group has reported net current liabilities and a relatively low current ratio. As at 30th April 2005, the net current liabilities was HK$68,202,000 (2004: HK$49,275,000), whilst the current ratio was 0.77 (2004: 0.83). The adoption of prudent capital management by the Group will raise the working capital level in future.



The Group's fixed asset turnover ratio was also at a relatively low level. As at 30th April 2005, the said ratio was 1.24 (2004: 1.07), which indicates that it is required to improve the utilisation rate in assets. The Group will be devoted to improving the production flow and re-organising the unbalanced-matching of the existing production facilities so as to increase the relatively low ratio of the fixed asset turnover.

Charges on Assets

As at 30th April 2005, certain assets of the Group with an aggregate carrying value of HK$51,674,000 (2004: HK$69,671,000) were pledged to secure banking facilities and finance lease.

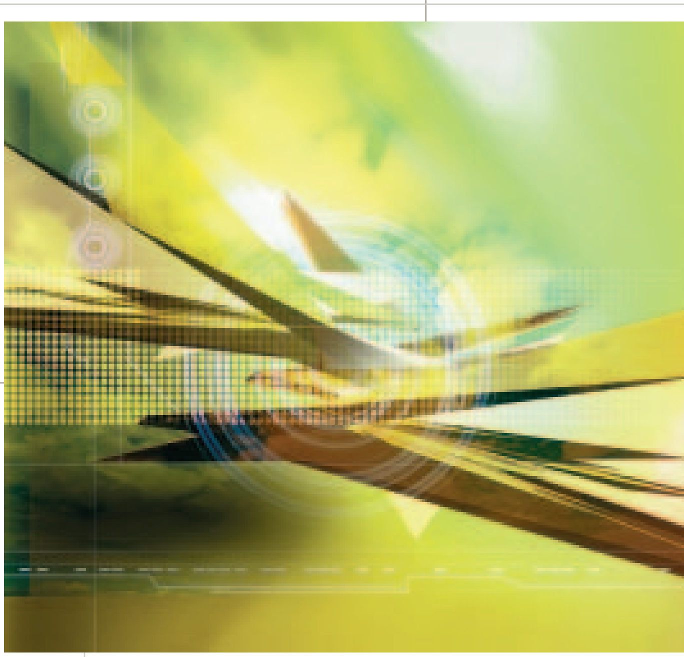
Exchange Risks

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 are primarily denominated in Hong Kong dollar, Renminbi (RMB) and United States dollar. Since The People's Bank of China announced an appreciation of 2% of RMB against United States dollar at the end of July 2005, the Group's certain revenues and expenses denominated in RMB may be subject to significant impact arising from the fluctuations in RMB in the future, but the fluctuation in RMB has been only preliminary and mild for the time being. The settlement in RMB only accounted for approximately 13% in terms of the Group's turnover for the financial year. The payments for purchases and wages and salaries, which were settled in RMB, were approximately 43% and 79% respectively. Accordingly, there was no natural hedging arisen therefrom. Given the currency value of RMB appreciates to a great extent, the Group's profit performance would be adversely affected. However, the Board 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 for the time being and will closely monitor the fluctuations in exchange rates of the currencies. The Group's borrowings are mainly settled in Hong Kong dollars or United States dollars. The Board believes that there is no substantial exchange risk.

Management Discussion and Analysis

FUTURE PLAN AND PROSPECTS

The Group expects that the increasing capital cost and labour cost and the sustaining high prices of raw materials will continue to put a squeeze on the gross profit margin in the short-term, and the competition in electronic component industry will remain fierce in the future. In the face of severe difficulties in the future operating conditions, the Group contemplates to steadily evolving into an electric coil sub-contracting manufacturer with competitiveness and expansibility, as positioned itself. The focus of future development will be on improvement and trim of its cost structure. In addition, the Group will continue to strictly control the head count of each production unit and to streamline the staff structure. The Group will also continue to actively look for regions with lower labour costs to establish production facilities, such as the setting up of production lines in Gaozhou, Guangdong Province in this financial year. This allows the Group to move certain labour-intensive coil processing work to other regions with lower costs.



In light of the soaring labour cost and the related welfare expenses in Mainland China in past years, the Group's future capital expenditure plan will focus on making investment in automatic production. Automatic production has been directing the Group to achieve successful development since 1999. However, the persistent ultra-short life cycle of electronic products nowadays urges the specifications of electronic components to call for frequent changes. In view of this, the Group will be much more discreet when considering the possible plan for certain processes with automatic production. All the automatic production equipment must be of adequate compatibility, which can ensure that their useful life can attain the depreciation period as adopted by the Group; otherwise the Group will opt to give up the relevant investment in such equipment.

To relieve the pressure of sustaining high prices of raw materials, the Group will also offer its major suppliers highly competitive payment terms in the markets in return for obtaining the support from the suppliers in terms of price, discount and delivery term, in addition to the continued improvement of production flow and craft to reduce the material loss. Although this mutual beneficial policy with the suppliers will shorten the Group's trade payables turnover, but the Group will secure more competitive supplies as compared with those offered at present.

The Group intends to revise its vertical-integration strategy. Except certain under-supply materials and parts in the market, the Group will not consider any new investment plan of materials and parts. The Group will proactively establish supply-chain relationship with some quality material suppliers for yielding a bigger competitive edge. On the other hand, the Group also intends to identify some cost-effective processing contractors to outsource part of its production processes and to restructure certain coil product production units and materials and parts production units with less competitiveness for optimising the cost structure of the Group's manufacturing business.

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For the sales and marketing promotion, the Group is forming sales and customers service teams comprising more high-calibre staff to further expand the customer network. The Group is prone to establish diversified customer profiles with a well-balanced combination of multi-industries engaging in multi-products in different regions. With this strategy, the Group expects that the sales business can have a more stable development in future for avoiding any hits that may arise from any fluctuations in a single market. On the other hand, the Group will continue its stringent control in credit management to assure that a low level of bad debt can be maintained in future and reasonable operating cash flow can be controlled.

The Group will continue the relatively effective management model in adopting localised Chinese style, which comprises major functional management centers with manufacturing, sales, finance, purchase, warehouse and quality assurance. The re-organization of China-focused Operating Model will expedite the integration of the Group's management talents and the all-out development of the core coil manufacturing business. On the other hand, the Group will strive to establish close partnership with top-notch enterprises in Mainland China in the belief that the introduction of outstanding business partners from Mainland China will be conducive to the Group's steady business development in the future.

In respect of production system and environmental protection, the Group has obtained the ISO 14001 Management System Certificate, which signifies a new stage for the Group's systemization of its environmental protection management. In addition, the Group has also established "Environment Management Promotion Committee" to review the environmental management standard for the plant at Zhongshan and to supervise the progress of its implementation. As to the directive of the Restriction of Hazardous Substances in Electrical and Electronic Equipment (RoHS) to be fully implemented in Europe in July 2006, the Group's products have come up with the standard of such regulations. The Group will put into resources to improve its environmental protection system and to provide training for the relevant qualified system personnel, so as to keep abreast of the international environmental protection development.

As to the human resources for production, the Group is facing the problems arising from the shortage of labour supply in Guangdong Province, including difficulties in recruiting new staff and retaining the existing staff. The Group expects that this shortage of labour will continue, which will make it more difficult for the Group to substantially boost its overall production capacity in future. Therefore, the Group has identified the labour market as one of the risk factors that can affect its future business growth and is studying a series of measures (including revision of employment terms and provision of excellent recreational facilities) to improve the living of staff with a view to reducing the Group's labour turnover for achieving a stable overall production capacity of the Group in future.

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EMPLOYEES AND REMUNERATION POLICY

The Group had approximately 6,800 employees as at 30th April 2005. The remuneration of the employees is determined by reference to market benchmark, individual performance and work experience, subject to periodic review, while bonus entitlement depends on the Group's results and employee's individual performance.

In short, the Group adopts a prudent approach in assessing its results and prospects for the next financial year. With the enormous investments made in the past few years and the motto of "customer-orientation", the Group will optimise the utilisation rate in assets to maximize the returns for the shareholders of the Company.

ACKNOWLEDGEMENTS

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

By Order of the Board
Lam Wai Chun
Chairman

Hong Kong, 15th August 2005