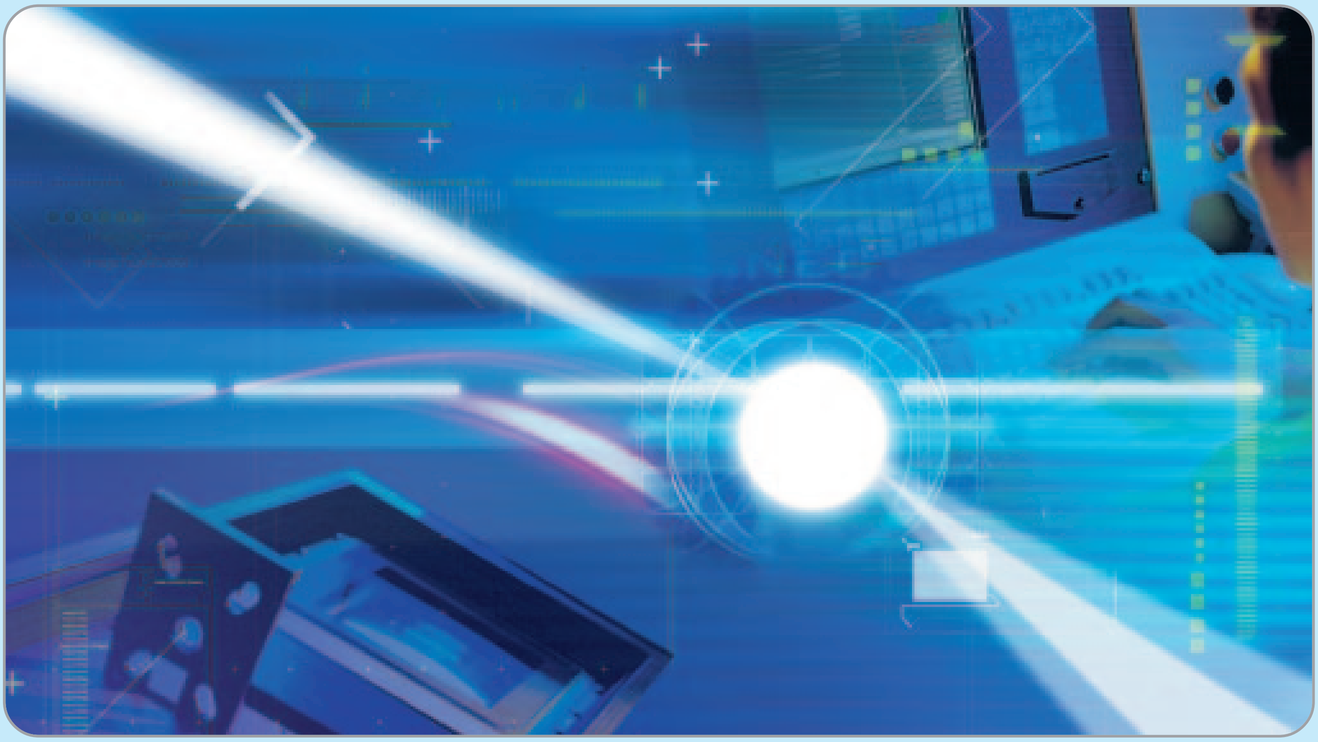
Management Discussion and Analysis



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 seventh annual report of the Company since the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 15 November 1999.

2005/2006 SUMMARY OF RESULTS

– Turnover climbed 11.6% to HK$618,561,000 (2005: HK$554,291,000);

– Profit attributable to equity holders of the Company was HK$23,296,000 (2005: HK$20,001,000);

– Basic earnings per share was HK3.30 cents (2005: HK2.89 cents);

– Proposed final dividend of HK0.9 cent (2005: HK0.7 cent) per share;

– Net cash inflow from operating activities decreased by 51% to HK$56,947,000 (2005: HK$116,171,000); and

– Gross profit margin decreased by 0.8% to 21.9% (2005: 22.7%).

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DIVIDEND

No interim dividend was declared for the year ended 30 April 2006 (2005: Nil).

The Board has resolved to recommend the payment of a final dividend of HK0.9 cent (2005: HK0.7 cent) per share for the year ended 30 April 2006 to shareholders whose names appear on the register of members of the Company on 27 September 2006.

The proposed final dividend of HK0.9 cent per share, the payment of which is subject to the approval of the shareholders at the forthcoming Annual General Meeting to be held on Wednesday, 27 September 2006, is to be payable on Tuesday, 10 October 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 21 September 2006 to Wednesday, 27 September 2006 (both dates inclusive), during which period no transfer of shares will be effected. 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 Wednesday, 20 September 2006.

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BUSINESS REVIEW

Overview

During the year ended 30 April 2006, the Group's core business posted a steady growth to record a total turnover of HK$618,561,000 (2005: HK$554,291,000), achieving an increase of 11.6% over that of last year. Gross profit was HK$135,753,000 (2005: HK$125,607,000), with an increase of approximately 8.1% compared with last year. Gross profit margin was 21.9% (2005: 22.7%), down 0.8% as compared with last year. In respect of the profit performance, the Group's operating profit, profit attributable to equity holders of the Company and earnings before interest, tax, depreciation and amortization ("EBITDA") reported HK$49,969,000 (2005: HK$42,663,000), HK$23,296,000 (2005: HK$20,001,000) and HK$116,196,000 (2005: HK$106,633,000) respectively, among which non-recurring income attributable to the resale of investment properties, revaluation of properties and dividend income was HK$3,964,000 (2005: Nil). Excluding this non-recurring income, profit attributable to equity holders of the Company was HK$19,332,000 (2005: HK$20,001,000).

	Turnover			
	2006		2005	
	HK$'000	*%*	*HK$'000*	*%*
Electronic components manufacturing	**617,093**	**99.8**	549,928	99.2
Others	**1,468**	**0.2**	4,363	0.8
	618,561	**100.0**	554,291	100.0

The Group's Business Performance

Electronic components manufacturing segment

For the year, the turnover of electronic components manufacturing segment (including coils, coils-related accessories and capacitors), the Group's core business, reported HK$617,093,000 (2005: HK$549,928,000), which accounted for 99.8% (2005: 99.2%) of the total turnover, and represented an increase of approximately 12.2% compared with last year. Such increase in turnover was mainly due to the desirable production growth in various electrical consumer products, including audio-visual, telecommunication, home electrical appliances, toys, computers, office equipment, automobiles, lighting facilities and power-supply devices.

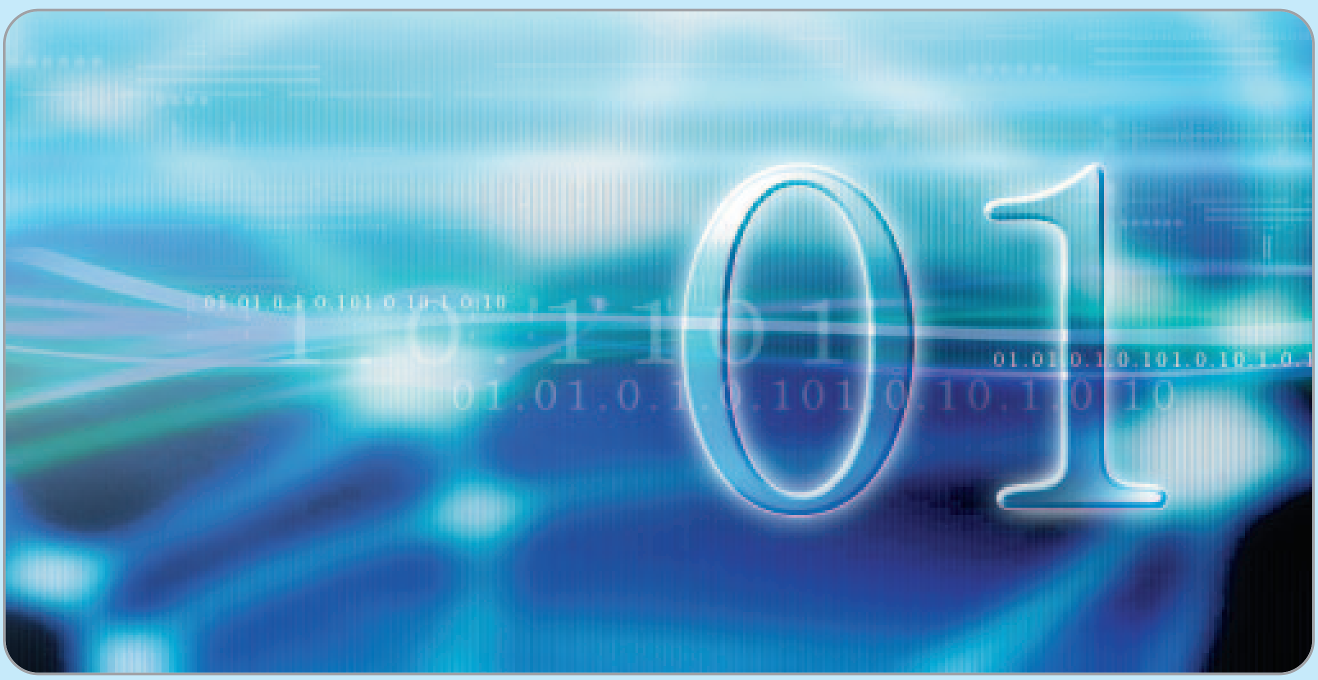
Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

During the year, the notable and persistent increase in the prices of the raw materials, the staff cost in Mainland China and the energy cost of the Group exerted tremendous pressure on the cost of the Group. Accordingly, the Group has continued to implement a series of measures to improve efficiency for enhancing overall productivity during the year. As a result, the gross profit of the Group's core business for the year amounted to HK$135,242,000 (2005: HK$123,941,000). However, the heavy cost pressure put a squeeze on the gross profit margin, which rendered its core business decrease by 0.6% to 21.9% (2005: 22.5%) as compared with last year.

The persistent surge of the prices of raw materials remained the biggest challenge to the Group. The prices of the Group's major raw materials, including copper required for manufacturing coils and various metals like nickel, zinc, manganese and iron required for manufacturing magnetic materials, all showed extraordinary fluctuation during the year, in particular, the rise of copper price. Based on the quoted prices on London Metal Exchange, the price for copper was approximately US$2,600 per ton in June 2004 while it rose to approximately US$3,500 in June 2005, and it once reached over US$8,600 per ton at the beginning of 2006. The prices of zinc and nickel also recorded a tremendous rise of approximately 251.6% and 65.8% respectively during the year.

The labour market in Mainland China has been in shortage during the year. The remuneration of the management personnel and factory workers has continued to rise as a result of the rapid economic growth in Mainland China. Difficulty in recruitment and high labour turnover rate are common in the Guangdong province. During the year, the Group made appropriate remuneration



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BUSINESS REVIEW *(continued)*

evaluation and adjustments for employees of different ranks, driving the remuneration of the employees of the Group up approximately 13.7% as compared with that of last year. The increase in overall remuneration was mainly due to the rises in both the number and remuneration of the employees. Meanwhile, the Group has allocated more resources on employee benefits in areas including catering, staff quarters and recreation, which further pushed up the overall cost of human resources.

FINANCIAL REVIEW

Overview

For the year ended 30 April 2006, the Group's profit attributable to equity holders of the Company was HK$23,296,000 (2005: HK$20,001,000), whilst basic earnings per share was HK3.30 cents (2005: HK2.89 cents).

Financial Management

Funds Surplus and Liabilities

As at 30 April 2006, the Group's credit facilities granted from banks amounted to HK$430,131,000 (2005: HK$652,643,000), of which HK$158,751,000 (2005: HK$386,883,000) remained unutilised. The total credit facilities of last financial year included a 3-year transferable term loan and revolving credit facility agreement dated 27 April 2005 for an aggregate amount of HK$243,000,000, which was wholly drawn down in May 2005.

As at 30 April 2006, the Group's cash and bank balance (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK$73,008,000 (2005: HK$68,649,000), up 6.3% as compared with last year. The banking facilities amounting to HK$271,380,000 were secured by mortgages on the Group's certain land and buildings, pledges of the Group's bank deposits, available-for-sale financial assets and machinery, and corporate guarantees provided by the Company and its certain subsidiaries. In addition, the Group is required to comply with certain restrictive financial covenants with the major financing banks. As at 30 April 2006, the Group could comply with such financial covenants.

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FINANCIAL REVIEW *(continued)*

As at 30 April 2006, the Group's total borrowings granted from banks and financial institutions amounted to HK$271,321,000 (2005: HK$238,276,000), of which HK$183,956,000 (2005: HK$214,379,000) was current and HK$87,365,000 (2005: HK$23,897,000) was non-current and will be repayable within a period of more than one year but not exceeding five years. As at 30 April 2006, the Group's gearing ratio* was 0.80 (2005: 0.76). The Group will endeavour to prudently take measures to control its financial resources and proactively reduce its financial leverage ratio in order to achieve a more stable business development in the future. In addition, the Group did not have any contingent liabilities (2005: HK$21,896,000) as at the same date.

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

Interest Expenses

For the year ended 30 April 2006, the Group's interest expenses amounted to HK$16,938,000 (2005: HK$13,580,000), up 24.7% as compared with last year. The rise in interest expenses was mainly attributable to the gradual rise in Hong Kong interbank offer rate and several increases in prime rate during the year, which led to a rise of approximately 2% in the Group's average interest rate of borrowings as compared with that of last year. Since the cycle of interest rate hike is still uncertain, the Group will endeavour to reduce all kinds of expenditure with a view to reducing the impact of the expenditure of the future interest expenses on the Group's overall performance.

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FINANCIAL REVIEW *(continued)*

Financial Resources and Capital Structure

For the year ended 30 April 2006, the Group's net cash inflow was reduced to HK$15,721,000 (2005: HK$19,235,000). During the financial year, net cash inflow from operating activities was reduced significantly to HK$56,947,000 (2005: HK$116,171,000), which was mainly due to the higher utilisation of working capital as a result of turnover increase. The net cash inflow from financing activities was HK$2,776,000 (2005: outflow of HK$59,891,000). The increase in net cash inflow from financing activities was mainly attributable to the draw-down of the aggregate amount of HK$243,000,000 under the 3-year transferable term loan and revolving credit facility agreement in May 2005.

For the year ended 30 April 2006, net cash outflow from investing activities increased to HK$46,461,000 (2005: HK$36,722,000), the capital expenditure of which was mainly utilised in

the construction of a new manufacturing plant in Zhongshan amounting to approximately HK$10,986,000 (2005: HK$1,233,000) with an aim of providing basic infrastructure for the expansion of the Group's Zhongshan main plant in the next five years. The purchase of machinery and equipment for enhancing production capacity amounted to HK$28,678,000 (2005: HK$32,577,000). The properties purchased in Hong Kong, which amounted to approximately HK$8,615,000 (2005: HK$4,681,000), were mainly the other flats in the same industrial building where the Hong Kong headquarters of the Group is situated. The purpose of the investment is to provide areas reserved for business development by the Hong Kong headquarters of the Group in the next ten years.

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FINANCIAL REVIEW *(continued)*

Cash Flow Summary

	2006	2005
	HK$'000	*HK$'000*
Net cash inflow from operating activities	**56,947**	116,171
Net cash outflow from investing activities	**(46,461)**	(36,722)
Net cash inflow/(outflow) from financing activities	**2,776**	(59,891)
Exchange adjustment	**2,459**	(323)
Increase in cash and cash equivalents	**15,721**	19,235

After the Group had drawn down the syndicated loan for an aggregate amount of HK$243,000,000 in May 2005, current ratio for the financial year was improved. As at 30 April 2006, the net current assets was HK$29,254,000 (2005: net current liabilities of HK$68,202,000), whilst the current ratio was 1.10 (2005: 0.77).

Charges on Assets

As at 30 April 2006, certain assets of the Group with an aggregate carrying value of HK$41,356,000 (2005: HK$48,596,000) were pledged to secure banking facilities and finance lease of the Group.

Exchange Risks

The Group's business is mainly conducted in Mainland China, Hong Kong and South-east Asia. The major revenue currencies are primarily denominated in Hong Kong dollar ("HKD"), Renminbi ("RMB") and United States dollar ("USD"); whilst the major currencies in purchase commitments

Management Discussion and Analysis

FINANCIAL REVIEW *(continued)*

are primarily denominated in HKD, RMB, USD and Japanese Yen. HKD and RMB are the major revenue currency and cost currency. Thus, the cumulative appreciation of over 3% in RMB against USD during the period from July 2005 to April 2006 posed a significant challenge on the Group's business. 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, but will closely monitor the fluctuations in exchange rates of the currencies. The Group's borrowings are mainly settled in Hong Kong dollars. The Board believes that there is no substantial exchange risk.

EMPLOYEES

The Group had approximately 7,900 (2005: 6,800) employees as at 30 April 2006. The salaries of the employees are maintained at competitive levels determined by reference to their academic qualification, working experience, professional or licensing qualification, job skill and market benchmark. The overall salary level of the Group is reviewed periodically, taking into consideration factors such as competitive market position and market practice. Discretionary bonuses are granted based on the operating results of the Group and the performance of individuals. Other employee benefits include pension scheme and medical insurance. Under the share option scheme of the Company, options may be granted to eligible employees to subscribe for shares in the Company.

The Group also emphasizes the promotion of on-the-job training and continuing education of its employees at all levels. Subsidies on training and education are provided to its employees with different levels for enhancing their knowledge and job or professional skills, which can yield the Group's competitive advantage.

FUTURE PROSPECTS

Research and development in applied material and industrial process management are becoming the Group's future high-priority tasks, as the Group believes that applied material and industrial process management are the key to lower production cost. The Group will focus its resources on those areas in setting up specific research and development centre, recruiting more relevant technicians and investing in a series of facilities, equipment and tools for research and development.

The Group has carried on its consolidation project in the Zhongshan main plant during the year. Two brand new factory premises with a total gross floor area of approximately 19,800 square meters have been completed, while the manufacturing workshop is

FUTURE PROSPECTS *(continued)*

under installation. The Group expects a more roomy production environment, equipped with production lines to align with other facilities for achieving a smoother production flow, in the future. The Group intends to integrate and restructure those under-performing subsidiaries, branches and plants in other regions so as to improve the operational effectiveness of the Group as a whole.

During the year, one of the Group's customers with long-established relationship had business suspension. The Group continues to adopt a more prudent credit management policy in the future so as to reduce bad debts to a greater extent.

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, 15 August 2006