



CEC INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 0759)

2004/2005 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of CEC International Holdings Limited (the "Company") is pleased to announce that the unaudited condensed consolidated accounts of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and six months ended 31st October 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 31st October		Six months ended 31st October	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	2	150,217	125,257	293,388	235,550
Cost of sales		(116,883)	(96,031)	(228,366)	(177,087)
Gross profit		33,334	29,226	65,022	58,463
Selling and distribution expenses		(2,798)	(2,771)	(5,960)	(5,608)
General and administrative expenses		(18,450)	(17,118)	(35,640)	(33,811)
Other operating expenses		(331)	(331)	(662)	(662)
Operating profit	2,3	11,755	9,006	22,760	18,382
Interest income		37	40	62	92
Interest expense		(3,723)	(4,507)	(7,335)	(9,055)
Share of profits less losses of associates		–	14	–	22
Profit before taxation		8,069	4,553	15,487	9,441
Taxation	4	(919)	(609)	(2,521)	(898)
Profit after taxation but before minority interests		7,150	3,944	12,966	8,543
Minority interests		–	4	–	–
Profit attributable to shareholders		7,150	3,948	12,966	8,543
Earnings per share					
– Basic	6	1.03 cents	0.57 cent	1.87 cents	1.23 cents
– Diluted	6	N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	As at 31st October 2004 HK\$'000 (Unaudited)	As at 30th April 2004 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets		448,877	457,213
Investment in associates		33	33
Deposit for acquisition of land		6,255	4,764
Total non-current assets		455,165	462,010
CURRENT ASSETS			
Inventories		53,676	83,973
Trade receivables	7	104,664	92,258
Bills receivable		562	2,181
Prepayments, deposits and other current assets		7,193	8,402
Investment		7,641	8,580
Tax recoverable		58	471
Pledged bank deposits		24,766	25,058
Bank balances and cash		25,683	24,506
Total current assets		224,243	245,429
CURRENT LIABILITIES			
Short-term bank borrowings	8	(201,124)	(198,359)
Trade payables	9	(48,169)	(59,288)
Bills payable		(6,138)	(2,890)
Accruals and other payables		(25,489)	(25,730)
Finance lease obligations, current portion		(3,150)	(6,017)
Taxation payable		(4,984)	(2,420)
Dividend payable		(5)	–
Total current liabilities		(289,059)	(294,704)
Net current liabilities		(64,816)	(49,275)
Total assets less current liabilities		390,349	412,735
NON-CURRENT LIABILITIES			
Long-term bank loans, non-current portion	8	(44,176)	(72,926)
Finance lease obligations, non-current portion		(1,465)	(2,971)
Deferred tax		(21,711)	(23,076)
Total non-current liabilities		(67,352)	(98,973)
Net assets		322,997	313,762
CAPITAL AND RESERVES			
Share capital		69,303	69,303
Reserves			
Proposed final dividend		–	3,465
Others		253,694	240,994
Shareholders' equity		322,997	313,762

Notes:

1. Principal accounting policies

The interim condensed consolidated accounts for the three months and six months ended 31st October 2004 comply with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants, and the same principal accounting policies and methods of computation are followed as compared with the most recent published annual accounts for the year ended 30th April 2004.

2. Segment information

Analysis of turnover and operating profit/(loss) by business segment is as follows:

	Turnover			
	Three months ended		Six months ended	
	31st October		31st October	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Coils manufacturing	139,520	109,680	269,860	206,871
Ferrite powder manufacturing	8,697	–	15,900	–
Capacitors manufacturing	1,363	4,188	4,219	6,847
Electronic components trading	426	10,742	2,572	19,342
Information technology services	101	647	650	2,490
Others	110	–	187	–
	<u>150,217</u>	<u>125,257</u>	<u>293,388</u>	<u>235,550</u>
	Operating profit/(loss)			
	Three months ended		Six months ended	
	31st October		31st October	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Coils manufacturing	11,238	11,377	21,453	21,646
Ferrite powder manufacturing	435	–	1,048	–
Capacitors manufacturing	149	(1,212)	525	(2,100)
Electronic components trading	55	195	104	581
Information technology services	(190)	(1,354)	(511)	(1,745)
Others	68	–	141	–
	<u>11,755</u>	<u>9,006</u>	<u>22,760</u>	<u>18,382</u>

Analysis of turnover and operating profit/(loss) by geographical segment is as follows:

	Turnover			
	Three months ended		Six months ended	
	31st October		31st October	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	71,072	77,158	141,265	147,928
Mainland China	47,202	18,757	91,877	31,959
Taiwan	9,838	10,820	19,504	20,335
Europe	6,347	8,993	11,748	15,338
Singapore	6,916	5,743	12,276	12,423
Others	8,842	3,786	16,718	7,567
	<u>150,217</u>	<u>125,257</u>	<u>293,388</u>	<u>235,550</u>
	Operating profit/(loss)			
	Three months ended		Six months ended	
	31st October		31st October	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,471	4,977	2,482	10,722
Mainland China	8,451	394	16,112	2,806
Taiwan	153	(148)	305	(403)
Europe	200	1,016	278	1,569
Singapore	1,198	2,898	3,188	3,843
Others	282	(131)	395	(155)
	<u>11,755</u>	<u>9,006</u>	<u>22,760</u>	<u>18,382</u>

3. Operating profit

Operating profit is stated after crediting and charging the following:

	Three months ended 31st October		Six months ended 31st October	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<u>Crediting</u>				
Gain on disposal of investment properties	–	–	50	–
Unrealised gain on investment	–	103	–	252
	<u>–</u>	<u>103</u>	<u>–</u>	<u>252</u>
<u>Charging</u>				
Depreciation of fixed assets	16,171	17,417	32,109	29,504
Unrealised loss on investment	939	–	939	–
Cost of inventories sold	116,584	95,357	227,510	175,696
Staff costs (including directors' emoluments)	31,406	26,966	62,033	53,436
	<u>16,171</u>	<u>17,417</u>	<u>32,109</u>	<u>29,504</u>
	<u>939</u>	<u>–</u>	<u>939</u>	<u>–</u>
	<u>116,584</u>	<u>95,357</u>	<u>227,510</u>	<u>175,696</u>
	<u>31,406</u>	<u>26,966</u>	<u>62,033</u>	<u>53,436</u>

4. Taxation

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. Overseas taxation has been calculated on the estimated assessable profits for the period at the rates prevailing in the respective jurisdictions.

The amount of taxation charged to the condensed consolidated income statement represents:

	Three months ended 31st October		Six months ended 31st October	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax				
– current tax	1,530	–	2,758	–
– over-provision in prior years	–	(1)	–	(19)
Overseas taxation				
– current tax	62	33	1,145	95
Deferred taxation	(673)	577	(1,382)	822
	<u>919</u>	<u>609</u>	<u>2,521</u>	<u>898</u>

5. Dividend

The Directors resolved not to declare any interim dividend in respect of the six months ended 31st October 2004 (2003: Nil).

6. Earnings per share

The calculation of basic earnings per share for the three months ended 31st October 2004 is based on the profit attributable to shareholders of approximately HK\$7,150,000 (2003: HK\$3,948,000) and the weighted average number of 693,028,811 (2003: 693,028,811) shares in issue during the period.

The calculation of basic earnings per share for the six months ended 31st October 2004 is based on the profit attributable to shareholders of approximately HK\$12,966,000 (2003: HK\$8,543,000) and the weighted average number of 693,028,811 (2003: 693,028,811) shares in issue during the period.

No information in respect of diluted earnings per share is presented as the exercise of the outstanding options during the three months and six months ended 31st October 2004 would have no dilutive effect.

No information in respect of diluted earnings per share is presented as the exercise of the outstanding options and warrants during the three months and six months ended 31st October 2003 would have no dilutive effect.

7. Trade receivables

The aging analysis of trade receivables is as follows:

	As at 31st October 2004 HK\$'000	As at 30th April 2004 HK\$'000
Current	85,512	78,954
Overdue by 0 – 1 month	8,115	7,048
Overdue by 1 – 2 months	7,618	2,648
Overdue by 2 – 3 months	2,938	2,961
Overdue by more than 3 months	3,978	3,686
	<u>108,161</u>	<u>95,297</u>
Less: Provision for bad and doubtful debts	(3,497)	(3,039)
	<u>104,664</u>	<u>92,258</u>

Management of the Group performs ongoing credit and collectibility evaluations of each customer. Provisions for potential credit losses are maintained and such losses in aggregate have not exceeded management's estimates. The Group offers an average credit period ranging from one to three months to its trade customers who have good payment records and well-established relationships with the Group.

8. Bank loans

(a) Short-term bank borrowings

	As at 31st October 2004 HK\$'000	As at 30th April 2004 HK\$'000
Long-term bank loan, current portion	82,714	74,936
Others	118,410	123,423
	<u>201,124</u>	<u>198,359</u>

(b) Long-term bank loans

During the period, the Group obtained a long-term bank loan in the amount of HK\$20,000,000 and the long-term bank loans amounting to approximately HK\$40,972,000 were repaid.

9. Trade payables

The aging analysis of trade payables is as follows:

	As at 31st October 2004 HK\$'000	As at 30th April 2004 HK\$'000
Current	39,692	41,701
Overdue by 0 – 1 month	2,820	7,322
Overdue by 1 – 2 months	1,187	3,811
Overdue by 2 – 3 months	38	1,311
Overdue by more than 3 months	4,432	5,143
	<u>48,169</u>	<u>59,288</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The Group's turnover for the six months ended 31st October 2004 was HK\$293,388,000 (2003: HK\$235,550,000), up 24.6% as compared with the corresponding period last year. During the period, coils manufacturing segment recorded a rise of 30.4% in turnover. In addition, ferrite powder manufacturing segment, which started sales in December 2003, also reported turnover of HK\$15,900,000 in the period. As for the electronic components trading segment and information technology segment, the turnover of these segments decreased by 86.7% and 73.9% respectively as compared with the same period last year. These reflected that the Group has been strictly implementing the step-by-step restructuring policy for its coils business.

During the period under review, the Group's overall gross profit was HK\$65,022,000 (2003: HK\$58,463,000), with an increase of 11.2% as compared with the corresponding period last year. Gross profit margin decreased to 22.2% (2003: 24.8%), which was attributable to the sustaining high prices of raw materials, as well as the increase in energy charges and wages incurred by its plant in Mainland China.

During the period, operating profit and profit attributable to shareholders were HK\$22,760,000 (2003: HK\$18,382,000) and HK\$12,966,000 (2003: HK\$8,543,000), up 23.8% and 51.8%, respectively as compared with the same period last year. Earnings before interest, tax, depreciation and amortisation ("EBITDA") was HK\$54,869,000 (2003: HK\$47,886,000) for the period.

Manufacturing Segment

The turnover of the coils manufacturing segment, the Group's core business, recorded a rise of 30.4% to HK\$269,860,000 (2003: HK\$206,871,000) for the six months ended 31st October 2004 and accounted for 92.0% (2003: 87.8%) of the Group's turnover. The increase in turnover was mainly attributable to the growth in sales volume of SMD chip inductor, power inductor, toroid coil and transformer.

Moreover, as at 31st October 2004, the Group's inventory was HK\$53,676,000 (as at 30th April 2004: HK\$83,973,000). The decrease in inventory was mainly resulted from the active consumption of raw materials inventory in the warehouse during the period by virtue of the sustaining high prices of raw materials, such as plastics, copper and metallic oxides, some of which surged to a new ten-year highs. In view of no dealings on commodity futures contract for hedging, the Group has been actively consuming the backlog of raw materials inventory in the warehouse since May of this year. This helped to alleviate the negative impact of the increasing production cost on profit and to reduce working capital locked up in inventory. Meanwhile, the Group has been striving to improve the logistics and control system to maintain inventory turnover days to the existing level. However, the policy regarding the active consumption of inventory could only ease pressure on the rising production cost in the short-term, and the directors recognize that it is not a long-term policy. If the aforesaid raw materials prices still stay pinned virtually to the highs in the future, it will inevitably put a squeeze on the Group's profit margin. As such, the Group is actively studying any possible long-term solutions to address this issue.

Under the maturing business environment and system in Mainland China, the Group also has grasped such opportunity for business development. The turnover in Mainland China reached HK\$91,877,000 for the six months ended 31st October 2004 (2003: HK\$31,959,000), with a growth of more than two-fold as compared with the same period last year, and accounted for 31.3% (2003: 13.6%) of the Group's turnover. Moreover, with the achievement in exploring active foreign markets, the turnover in America more than

doubled to HK\$10,185,000 (2003: HK\$3,747,000) as compared with the corresponding period last year and accounted for 3.5% (2003: 1.6%) of the Group's turnover.

Financial Review

Funds Surplus and Liabilities

As at 31st October 2004, cash and bank deposits (denominated mainly in Hong Kong dollar, United States dollar, Renminbi, etc) was HK\$50,449,000 (as at 30th April 2004: HK\$49,564,000). The banking facilities were secured by mortgages on the Group's certain land and buildings, pledges of the Group's bank deposits, investment, 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 31st October 2004, the Group could comply with such financial ratios, which indicates that the Group's financial position was satisfactory.

As at 31st October 2004, the Group's total borrowings granted from banks and financial institutions was HK\$249,915,000 (as at 30th April 2004: HK\$280,273,000), of which HK\$204,274,000 (as at 30th April 2004: HK\$204,376,000) was current and HK\$45,641,000 (as at 30th April 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. Furthermore, with a continuous decline in the total borrowings, interest expenses of the Group reduced by 19% to HK\$7,335,000 (2003: HK\$9,055,000) as compared with the corresponding period last year.

As at 31st October 2004, contingent liabilities amounted to HK\$32,976,000 (as at 30th April 2004: HK\$38,052,000), of which HK\$32,976,000 (as at 30th April 2004: HK\$35,568,000) was factoring of trade receivables with recourse.

Financial Resources and Capital Structure

The Group's net cash flow for the six months ended 31st October 2004 amounted to minus HK\$3,051,000 (2003: HK\$24,430,000). Net cash flow from operating activities was HK\$67,741,000 (2003: HK\$44,164,000). Net cash flow from financing activities was minus HK\$45,382,000 (2003: HK\$11,270,000). During the period, the Group obtained banking facilities which were used for the acquisition of new equipment and as working capital. Taking into account the corporate development and the market condition, the Group will gradually improve its capital structure. During the period under review, the Group continued to repay certain balances of bank loans for reducing the Group's net gearing ratio. As at 31st October 2004, the Group's net gearing ratio* was 0.74 (as at 30th April 2004: 0.88).

(* *The ratio of (total borrowings plus bills payable and contingent liabilities less total cash and bank deposits) over (net tangible assets less proposed dividend)*)

Net cash flow from investing activities for the six months ended 31st October 2004 was minus HK\$25,204,000 (2003: minus HK\$31,273,000), the capital expenditure of which was mainly used in purchasing equipment and expanding manufacturing plant, thereby increasing the production capacity.

Cash Flow Summary

	Six months ended	
	31st October	
	2004	2003
	HK\$'000	HK\$'000
Net cash inflow from operating activities	67,741	44,164
Net cash outflow from investing activities	(25,204)	(31,273)
Net cash (outflow)/inflow from financing activities	(45,382)	11,270
Exchange adjustment	(206)	269
(Decrease)/increase in cash and cash equivalents	<u>(3,051)</u>	<u>24,430</u>

Charges on Assets

As at 31st October 2004, certain assets of the Group with an aggregate carrying value of HK\$48,363,000 (as at 30th April 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 and Hong Kong and the major revenue generating currencies and major currencies in purchase commitments primarily denominated in Hong Kong dollar, Renminbi and United States dollar. 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

With regard to plant and production facilities, the Group reached an agreement with the local government in Mainland China for purchasing a land parcel of 35,000 square meters nearby its main plant at Zhongshan. During the period under review, the infrastructure construction for the land and plant started off. The new plant will be utilized to expand production lines for power inductor and transformer. Besides, the Group continues to pursue more business opportunities, including plans to set up production lines in Gaozhou and Dongguan, Guangdong Province of Mainland China, as well as Brazil in South America in order to meet the increasing demand from its customers. It is expected that these development projects will come into production in the second half of this financial year.

CORPORATE DEVELOPMENT POLICY

The Group's Hong Kong head office will still be responsible for formulating its overall management policy, while the management in accounting, finance, capital and risk is strictly implemented according to the policies approved by the Board. As to the financing aspect, the Group will continue to make use of the credit facilities provided by financial institutions in Hong Kong as the major financing method. The Group recognizes that fund-raising from the capital market is an important financing method. As such, the Group will further reinforce corporate governance and transparency in information disclosure, and strengthen its coils business development.

Apart from the local business which is involved with Hong Kong customers to be continuously run by Coils Electronic Co., Limited, a wholly-owned subsidiary of the Group, the Group will continue to adhere to the "Re-organization to the China-focused Operating Model" as laid down in the last financial year with all the functional departments, including manufacturing business, research and development, logistics management, sales and customer service, to be re-located to its main plant in Zhongshan. On the other hand, the Group will also fully make use of the relationship network and human resources of its subsidiaries in different locations for less resources overlapped so as to enhance the overall operating efficiency of the Group. The Board expects that the said re-organization can be completed before the end of 2005.

The Group will make all its employees attain the requisite professional standards in line with their job duties, especially in the areas of sales and marketing, production, research and development, environmental system, quality assurance, financial management as well as human resources and administration. The Group will devote to upgrading the senior management to professional standards. It is expected that all the senior management will be qualified in their respective professions before the end of 2005. All the middle management must have the requisite qualification in their specialized studies or attained tertiary level. Moreover, the Group's "Executive Trainee Program" will continue to provide the relevant training courses to the employees under the program in order to let them attain the requisite professional standards in their respective positions.

The Group as a coils manufacturer fully realizes that product development and research and development must be major for component products, instead of depending on assembly business, to continuously provide electronic component products of high quality at competitive prices to its customers when facing the rapidly changing demand in electronic products. Accordingly, the Group will continue to implement this policy for achieving a steady business development.

DIVIDEND POLICY

The Board has adopted a stable dividend policy to distribute dividend income to the Company's shareholders that is in line with the Group's profit performance. The dividend payout ratio will not exceed 25% of the profit attributable to shareholders for the relevant financial year. The recommendation or declaration of dividends to be considered by the Board will be subject to a minimum dividend per share of HK0.5 cent. No declaration of dividend will be made in the first quarter and third quarter of each financial year. The Group will consider the following factors to review the dividend policy:

- the level of the Group's cash position in comparison to its current and projected operating and capital requirements;
- rewarding shareholders for their continued support;
- improving return on investment; and
- sustaining the Group's stability, growth and maintaining prudent risk management.

EMPLOYEES AND REMUNERATION POLICY

The Group had approximately 6,700 employees as at 31st October 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 employees' individual performance.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 31st October 2004.

AUDIT COMMITTEE

The Audit Committee of the Company presently comprises the three independent non-executive directors. One of the independent non-executive directors is a Certified Public Accountant in Hong Kong with substantial experience in corporate finance, auditing and financial management. Regular meetings have been held by the Audit Committee since its establishment and it meets at least twice each financial year.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the interim results announcement for the six months ended 31st October 2004.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31st October 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that the independent non-executive directors have not been appointed for a specific term, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's Bye-laws.

PUBLICATION OF FURTHER INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules in force prior to 31st March, 2004, which remain applicable to results announcement in respect of accounting periods commencing before 1st July, 2004 under the transitional arrangement, will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

As at the date hereof, the Board of Directors of the Company comprises three Executive Directors, namely Mr. Lam Wai Chun, Ms. Tang Fung Kwan, Mr. Law Hoo Shan and three Independent Non-executive Directors, namely Mr Au Son Yiu, Mr. Lee Wing Kwan, Denis, Mr. Tang Tin Sek.

By Order of the Board
Lam Wai Chun
Chairman

Hong Kong, 22nd December 2004

Website: <http://www.ceccoils.com>
<http://www.0759.com>
<http://www.irasia.com/listco/hk/cecint>