



# CEC INTERNATIONAL HOLDINGS LIMITED

## (CEC 國際 控 股 有 限 公 司)\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 0759)

### 2006/2007 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the “Board”) of CEC International Holdings Limited (the “Company”) is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 31 October 2006 as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Three months ended 31 October		Six months ended 31 October	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Sales	2	<b>179,154</b>	156,059	<b>351,918</b>	301,272
Cost of sales	4	<b>(142,688)</b>	(120,826)	<b>(280,809)</b>	(234,669)
Gross profit		<b>36,466</b>	35,233	<b>71,109</b>	66,603
Other gains, net	3	<b>406</b>	175	<b>785</b>	1,626
Selling and distribution expenses	4	<b>(3,587)</b>	(3,057)	<b>(7,082)</b>	(5,994)
General and administrative expenses	4	<b>(19,545)</b>	(18,176)	<b>(38,079)</b>	(33,954)
Operating profit		<b>13,740</b>	14,175	<b>26,733</b>	28,281
Finance costs	5	<b>(5,304)</b>	(4,593)	<b>(9,749)</b>	(9,635)
Profit before taxation		<b>8,436</b>	9,582	<b>16,984</b>	18,646
Taxation	6	<b>(1,267)</b>	(2,355)	<b>(2,974)</b>	(4,840)
Profit attributable to equity holders of the Company	2	<b><u>7,169</u></b>	<u>7,227</u>	<b><u>14,010</u></b>	<u>13,806</u>
Earnings per share for profit attributable to equity holders of the Company	8				
– Basic		<b><u>1.00 cent</u></b>	1.04 cents	<b><u>1.96 cents</u></b>	1.99 cents
– Diluted		<b><u>N/A</u></b>	N/A	<b><u>N/A</u></b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at <b>31 October 2006</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 30 April 2006 <i>HK\$'000</i> <b>(Audited)</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Leasehold land and land use rights		27,479	23,865
Property, plant and equipment		369,447	370,681
Investment properties		10,970	10,970
Available-for-sale financial assets		7,483	7,079
		415,379	412,595
<b>Current assets</b>			
Inventories		71,821	65,428
Bills and account receivables	9	180,672	162,622
Other receivables		9,290	7,961
Tax recoverable		21	53
Pledged bank deposits		25,949	25,446
Bank balances and cash		47,400	47,562
		335,153	309,072
<b>Total assets</b>		<b>750,532</b>	<b>721,667</b>
<b>EQUITY</b>			
Share capital		71,661	71,661
Reserves			
Proposed final dividend		–	6,449
Others		282,898	262,866
<b>Total equity</b>		<b>354,559</b>	<b>340,976</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		48,564	87,365
Deferred tax		12,141	13,508
		60,705	100,873
<b>Current liabilities</b>			
Borrowings		238,126	183,956
Bills and account payables	10	64,862	54,742
Accruals and other payables		26,165	31,647
Taxation payable		6,115	9,473
		335,268	279,818
<b>Total liabilities</b>		<b>395,973</b>	<b>380,691</b>
<b>Total equity and liabilities</b>		<b>750,532</b>	<b>721,667</b>
<b>Net current (liabilities)/assets</b>		<b>(115)</b>	<b>29,254</b>
<b>Total assets less current liabilities</b>		<b>415,264</b>	<b>441,849</b>

Notes:

**1. Basis of preparation and accounting policies**

These unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants. The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 30 April 2006.

The accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the annual financial statements for the year ended 30 April 2006 with the addition of certain new standards or amendments of Hong Kong Financial Reporting Standards (“HKFRS”) issued and became effective during the period ended 31 October 2006. The adoption of such standards or amendments has no significant effect on the Group’s results.

The Group has not early adopted any new/revised HKFRSs, HKASs, amendments and interpretations which have been issued on or before 31 October 2006 but are not effective for the financial year ending 30 April 2007. The Group is in the process of assessing their impact on the Group’s results and operations.

**2. Segment information**

**(a) Primary segments**

	Six months ended 31 October 2006			Six months ended 31 October 2005		
	Electronic components manufacturing HK\$’000	Others HK\$’000	Total HK\$’000	Electronic components manufacturing HK\$’000	Others HK\$’000	Total HK\$’000
Sales	351,189	2,119	353,308	300,532	1,987	302,519
Inter-segment sales	-	(1,390)	(1,390)	-	(1,247)	(1,247)
External sales	<u>351,189</u>	<u>729</u>	<u>351,918</u>	<u>300,532</u>	<u>740</u>	<u>301,272</u>
Operating profit	26,547	186	26,733	27,722	559	28,281
Finance costs			<u>(9,749)</u>			<u>(9,635)</u>
Profit before taxation			16,984			18,646
Taxation			<u>(2,974)</u>			<u>(4,840)</u>
Profit attributable to equity holders of the Company			<u>14,010</u>			<u>13,806</u>
Capital expenditures	<u>32,255</u>	<u>-</u>	<u>32,255</u>	<u>25,440</u>	<u>5,708</u>	<u>31,148</u>
Depreciation	<u>33,253</u>	<u>20</u>	<u>33,273</u>	<u>33,237</u>	<u>21</u>	<u>33,258</u>
Amortisation	<u>308</u>	<u>-</u>	<u>308</u>	<u>158</u>	<u>-</u>	<u>158</u>

	Electronic components manufacturing		Others		Total	
	As at	As at	As at	As at	As at	As at
	31/10/2006	30/4/2006	31/10/2006	30/4/2006	31/10/2006	30/4/2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other information						
Segment assets	738,876	707,490	11,635	14,124	750,511	721,614
Unallocated assets					21	53
Total assets					<u>750,532</u>	<u>721,667</u>
Segment liabilities	376,830	356,690	887	1,020	377,717	357,710
Unallocated liabilities					18,256	22,981
Total liabilities					<u>395,973</u>	<u>380,691</u>

(b) Secondary segments

	Sales		Capital expenditures		Total assets	
	Six months ended		Six months ended		As at	As at
	31 October		31 October		31/10/2006	30/4/2006
	2006	2005	2006	2005	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	117,587	118,735	8,907	6,071	120,388	118,700
Mainland China	157,875	114,828	22,634	25,077	571,934	541,691
Taiwan	24,404	21,111	714	–	22,310	24,136
Europe	13,375	13,306	–	–	3,893	4,093
Singapore	20,840	15,505	–	–	25,730	26,332
Others	17,837	17,787	–	–	6,277	6,715
	<u>351,918</u>	<u>301,272</u>	<u>32,255</u>	<u>31,148</u>	<u>750,532</u>	<u>721,667</u>

3. Other gains, net

	Three months ended		Six months ended	
	31 October		31 October	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	406	141	785	287
Dividend income	–	34	–	1,339
	<u>406</u>	<u>175</u>	<u>785</u>	<u>1,626</u>

4. Expenses by nature

	Three months ended		Six months ended	
	31 October		31 October	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of prepaid operating lease payment	156	79	308	158
Depreciation of property, plant and equipment	16,542	16,559	33,273	33,258
(Reversal of)/provision for impairment of receivables	(731)	180	(1,897)	520
Cost of inventories sold	142,581	120,326	280,573	233,643
Employee benefit expense (including directors' emoluments)	<u>42,101</u>	<u>35,743</u>	<u>82,820</u>	<u>66,430</u>

## 5. Finance costs

	Three months ended 31 October		Six months ended 31 October	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Interest expense	5,000	3,969	9,103	8,835
Amortisation of deferred borrowing costs	304	624	646	800
	<u>5,304</u>	<u>4,593</u>	<u>9,749</u>	<u>9,635</u>

## 6. Taxation

The Company is incorporated in Bermuda and is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the period. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax ranging from 7.5% to 33% (2005: 7.5% to 33%) on their taxable income determined according to Mainland China tax laws. Other 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 31 October		Six months ended 31 October	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong profits tax – current tax	1,106	2,521	2,040	4,628
Overseas taxation – current tax	1,082	1,111	2,321	1,959
Deferred taxation	(921)	(1,277)	(1,387)	(1,747)
	<u>1,267</u>	<u>2,355</u>	<u>2,974</u>	<u>4,840</u>

## 7. Dividend

The Board resolved not to declare any dividend in respect of the six months ended 31 October 2006 (2005: Nil).

## 8. Earnings per share

The calculation of basic earnings per share for the three months ended 31 October 2006 is based on the profit attributable to equity holders of the Company of approximately HK\$7,169,000 (2005: HK\$7,227,000) and the weighted average number of 716,610,798 (2005: 695,079,419) shares in issue during the period.

The calculation of basic earnings per share for the six months ended 31 October 2006 is based on the profit attributable to equity holders of the Company of approximately HK\$14,010,000 (2005: HK\$13,806,000) and the weighted average number of 716,610,798 (2005: 694,054,115) shares in issue during the period.

No information in respect of diluted earnings per share is presented as there was no dilutive potential share during the three months and six months ended 31 October 2005 and 31 October 2006 respectively.

**9. Bills and account receivables**

The aging analysis of bills and account receivables, net of impairment losses, is as follows:

	<b>As at 31 October 2006 HK\$'000</b>	<b>As at 30 April 2006 HK\$'000</b>
Current	<b>144,797</b>	134,827
Overdue by 0 – 1 month	<b>20,028</b>	20,197
Overdue by 1 – 2 months	<b>12,286</b>	3,305
Overdue by 2 – 3 months	<b>3,561</b>	4,293
	<b><u>180,672</u></b>	<b><u>162,622</u></b>

Management of the Group performs ongoing credit and collectibility evaluations of each customer. The Group offers an average credit period ranging from one to three months to its customers who have good payment records and well-established relationships with the Group.

**10. Bills and account payables**

The aging analysis of bills and account payables is as follows:

	<b>As at 31 October 2006 HK\$'000</b>	<b>As at 30 April 2006 HK\$'000</b>
Current	<b>58,643</b>	48,142
Overdue by 0 – 1 month	<b>4,383</b>	4,945
Overdue by 1 – 2 months	<b>1,114</b>	446
Overdue by 2 – 3 months	<b>296</b>	838
Overdue by more than 3 months	<b>426</b>	371
	<b><u>64,862</u></b>	<b><u>54,742</u></b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The turnover of the Group for the six months ended 31 October 2006 was HK\$351,918,000 (2005: HK\$301,272,000) achieving an increase of 16.8% as compared with the corresponding period last year. The Group's core business, electronic components manufacturing segment, the turnover of which was HK\$351,189,000 (2005: HK\$300,532,000) and accounted for 99.8% (2005: 99.8%) of the Group's turnover. Sales analysis by geographical location reflecting the main turnover growth drivers were Mainland China and other countries in Asia, of which the turnover from Mainland China reported approximately HK\$157,875,000 (2005: HK\$114,828,000), up 37% as compared with the same period last year. Besides, turnover from Singapore and Taiwan reported approximately HK\$20,840,000 (2005: HK\$15,505,000) and HK\$24,404,000 (2005: HK\$21,111,000) respectively, up 34% and 16% respectively as compared with the same period last year.

During the period under review, the sustained rises in prices of metallic materials and energy cost as well as the soaring staff wages of Mainland China giving rise to an increase of approximately 5% in the average wage of production staff as compared with the corresponding period last year propelled the overall production cost upwards. Gross profit margin decreased by 1.9% to 20.2% (2005: 22.1%) as compared with the corresponding period last year. Gross profit for the period was HK\$71,109,000 (2005: HK\$66,603,000). Profit attributable to equity holders of the Company for the period was HK\$14,010,000 (2005: HK\$13,806,000). Net profit margin reduced by 0.6% to 4.0% (2005: 4.6%) as compared with the corresponding period last year, which was mainly attributable to the decline in gross profit margin and the increase of approximately 7% in the average salary of sales and marketing, administrative and management personnel during the period.

As at 31 October 2006, the Group's total accounts receivables rose to HK\$180,672,000 (30 April 2006: HK\$162,622,000), which was primarily attributable to the increase in the Group's turnover as compared with the corresponding period last year. On the other hand, the prolonged repayment period has been a tendency in the market, accelerating the rise in overall accounts receivables. The Group's total inventory was HK\$71,821,000 (30 April 2006: HK\$65,428,000), up approximately 9.8% as compared with that of the financial year-end date of last year. The Group will continue to improve the management of purchasing, manufacturing and logistics and to actively control the inventory within a reasonable level.

### Financial Review

#### *Fund Surplus and Liabilities*

As at 31 October 2006, the Group's bank balance and cash (denominated mainly in Hong Kong dollar, United States dollar and Renminbi) was HK\$73,349,000 (30 April 2006: HK\$73,008,000). The banking facilities amounting to HK\$292,069,000 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 imposed by the major financing banks. As at 31 October 2006, the Group complied with such financial covenants, which indicates that the Group's financial position was satisfactory.

As at 31 October 2006, the Group's total borrowings granted from banks and financial institutions amounted to HK\$286,690,000 (30 April 2006: HK\$271,321,000), of which HK\$238,126,000 (30 April 2006: HK\$183,956,000) will be repayable within one year and HK\$48,564,000 (30 April 2006: HK\$87,365,000) will be repayable within a period of more than one year but not exceeding five years. As at 31 October 2006, the Group's net gearing ratio\* was 0.60 (30 April 2006: 0.59). The Group will continue to prudently control its financial resources for gradually reducing the Group's debt level.

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

### *Financial Resources and Capital Structure*

For the six months ended 31 October 2006, the Group's net cash inflow was HK\$3,347,000 (2005: HK\$17,870,000). The net cash inflow from operating activities was HK\$28,848,000 (2005: HK\$5,293,000). The net cash inflow from financing activities was HK\$2,809,000 (2005: HK\$43,831,000). The total net cash inflows from operating activities and financing activities of the same period last year were comparatively higher than those of the period under review due 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 by the Company during the same period last year. As regards to interest expenses, for the six months ended 31 October 2006, the Group's interest expenses amounted to HK\$9,103,000 (2005: HK\$8,835,000), up approximately 3% as compared with the same period last year.

For the six months ended 31 October 2006, net cash outflow from investing activities was HK\$30,172,000 (2005: HK\$32,452,000), of which HK\$24,734,000 (2005: HK\$25,543,000) was mainly used for the purchase of machinery and equipment and expansion of plant with a view to raising production capacity.

### *Cash Flow Summary*

	<b>For the six months ended 31 October</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash inflow from operating activities	<b>28,848</b>	5,293
Net cash outflow from investing activities	<b>(30,172)</b>	(32,452)
Net cash inflow from financing activities	<b>2,809</b>	43,831
Exchange adjustment	<b>1,862</b>	1,198
	<hr/>	<hr/>
Increase in cash and cash equivalents	<b><u>3,347</u></b>	<b><u>17,870</u></b>

As at 31 October 2006, the Group's current ratio was 1.0 (30 April 2006: 1.1). The lower current ratio was due to the increase of HK\$54,170,000 in the outstanding balance of the Group's short-term borrowings as at 31 October 2006, as compared with that as at the financial year-end date of last year. On the contrary, the outstanding balance of the Group's long-term borrowings as at 31 October 2006 reduced by HK\$38,801,000, as compared with that as at the financial year-end date of last year. On the other hand, the use of HK\$7,521,000 for the purchase of properties by the Group during the period under review also had an impact on the current ratio. The Board will focus on controlling the working capital and the change of capital structure so as to improve the current ratio.

### **Charges on Assets**

As at 31 October 2006, certain assets of the Group with an aggregate carrying value of approximately HK\$38,146,000 (30 April 2006: HK\$41,356,000) 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, Renminbi and United States dollar; whilst the major currencies in purchase commitments are primarily denominated in Hong Kong dollar, Renminbi, United States dollar and Japanese Yen. Renminbi has been on upward trend since The People's Bank of China announced an appreciation of Renminbi against United States dollar at the end of July 2005. Recently, Renminbi has a stronger rise and once surpassed 1:1 against Hong Kong dollar. It is predicted that the appreciation of Renminbi will continue. As such, the Group's certain revenues and expenses denominated in Renminbi may be subject to significant impact arising from the fluctuations in Renminbi. The Board is closely monitoring 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.

### **Future Plan and Prospects**

The Group has been facing price fluctuation of metal materials, soaring staff wages in Mainland China and the sustained appreciation of Renminbi, giving rise to a downward trend of its gross profit margin. The Board considers that the pressure on costs will continue. However, the Board and the senior management will endeavour to lead all staff to make dedication for work with a view to raising the Group's operating performance in all aspects to resist the sustained pressure on costs.

The Group has assessed the feasibility of developing energy-savings products in the previous year. After thorough consideration, the Group has positioned this project as a second manufacturing segment, in addition to the electronic components manufacturing segment. The Group will establish a research and development centre for the new products at its Hong Kong headquarters and recruit relevant technological research staff to develop those products related to energy-savings products. The Group aims at developing the second manufacturing segment in two years and expects that the new products will become another source of income, other than the electronic components manufacturing segment, in 2008-2009 financial year. In addition, the Group has purchased a property in Zhongguancun, Beijing, at which an equipment development centre will be established in 4 to 6 months from the date of this report. The centre will be responsible for developing and manufacturing high-quality equipment which can be used for the energy-savings products of the Group.

The Group anticipates that the newly developed products can be launched to the market within the next two years and the Zhongshan main workshop will take up such production. The manufacturing workshops of the Group, other than the Zhongshan main workshop, have commenced study on the pilot run of coils production. In addition, further installation and expansion of production facilities will be made in the future so as to diverge part of coils production from the Zhongshan main workshop to such manufacturing workshops, thereby catering for the manufacture of the new products with its spare production capacity.

### **Employees**

The Group employed approximately 7,900 (2005: 6,700) employees as at 31 October 2006. 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 employees' individual performance. Other employee benefits include pension scheme and medical insurance. Subsidies on training and education are also provided. Under the share option scheme of the Company, options may be granted to eligible employees to subscribe for shares in the Company.

For re-positioning Hong Kong as a core management base, the Group has, through the Admission Scheme for Mainland Talents and Professionals of Hong Kong government, been recruiting and assigning Mainland talents to take up leading and managerial work in Hong Kong. In 2006, four experienced Mainland management staff were admitted for employment in Hong Kong headquarters of the Group. Looking ahead, there are still a number of job vacancies of the Group for recruitment from Mainland China to build up a full-fledged management team.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES**

The Company had not redeemed any of its listed shares during the six months ended 31 October 2006. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed shares during the six months ended 31 October 2006.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the applicable code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing Rules of Securities on The Stock Exchange of Hong Kong Limited for the six months ended 31 October 2006, except the following deviations:

1. Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

All the independent non-executive directors of the Company have not been appointed for a specific term, but are subject to retirement by rotation at the annual general meeting of the Company at least once every three years in accordance with the Bye-laws of the Company. The Company considers that sufficient measure has been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the Code.

2. Under Code Provision E.1.2, the Chairman of the Board should attend the annual general meeting.

The Chairman of the Board did not attend the Annual General Meeting of the Company held on 27 September 2006 (“2006 AGM”) due to illness at the material time. The Managing Director of the Company, who chaired 2006 AGM, and all other members of the Board (including the chairman of each of the Audit Committee and Remuneration Committee) attended 2006 AGM to ensure effective communication with shareholders of the Company.

## AUDIT COMMITTEE

The Audit Committee of the Company presently comprises the four independent non-executive directors, with Dr. Tang Tin Sek, who is a Certified Public Accountant practising in Hong Kong with substantial experience in corporate finance, auditing and financial management, acting as Chairman of the Audit Committee. 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, the internal control of the Group and the interim results for the six months ended 31 October 2006.

By Order of the Board

**Tang Fung Kwan**

*Deputy Chairman and Managing Director*

Hong Kong, 18 December 2006

*As at the date of this announcement, the Board of the Company comprises four Executive Directors, namely Mr. Lam Wai Chun, Ms. Tang Fung Kwan, Mr. Chua You Sing and Ms. Li Hong; and four Independent Non-executive Directors, namely Mr. Au Son Yiu, Mr. Lee Wing Kwan, Denis, Dr. Tang Tin Sek and Mr. Goh Gen Cheung.*

Websites: <http://www.ceccoils.com>

<http://www.0759.com>

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

\* *For identification purpose only*