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Corporate Information

EXECUTIVE DIRECTORS

Mr. Chan Tat (*Chairman*)
Mr. Poon Tat Hang (*Chief Executive Officer*)
Mr. Lee Kam Hung

NON-EXECUTIVE DIRECTOR

Madam Hong Jing Yu

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hong Yee Kwong, Paul
Mr. Lam King Pui
Mr. Wu Tai Cheung

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31/F, Gloucester Tower, The Landmark
11 Pedder Street
Central
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

AUDIT COMMITTEE

Mr. Lam King Pui (*Chairman*)
Mr. Hong Yee Kwong, Paul
Mr. Wu Tai Cheung

REMUNERATION COMMITTEE

Mr. Hong Yee Kwong, Paul (*Chairman*)
Mr. Lam King Pui
Mr. Wu Tai Cheung

COMPANY HOMEPAGE

<http://www.bep.com.hk>

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 909-912
9th Floor, Fo Tan Industrial Centre
26-28 Au Pui Wan Street
Fo Tan, Shatin
New Territories
Hong Kong

COMPANY SECRETARY

Mr. Poon Tat Hang

AUTHORISED REPRESENTATIVES

Mr. Poon Tat Hang
Mr. Lee Kam Hung

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
26/F
Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

STOCK CODE

2326

Chairman's Statement

SUMMARY OF RESULTS

The consolidated turnover of the Group for the year ended 31 March 2006 was approximately HK\$280,876,000 (2005: HK\$204,472,000). Net loss attributable to shareholders for the year was approximately HK\$18,323,000 (2005: HK\$26,969,000).

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 March 2006 (2005: nil).

REVIEW OF OPERATIONS

For the year ended 31 March 2006, the Group's turnover increased by approximately 37.4% from approximately HK\$204,472,000 to approximately HK\$280,876,000 as compared to the previous year. Net loss attributable to shareholders narrowed to approximately HK\$18,323,000 (2005: HK\$26,969,000).

The Group's products mainly consisted of kettles, irons, coffee makers and grinders, and fan heaters. Geographically, Europe continued to be our largest market, accounting for approximately 56.2% of our total sales in the year. North America came second, accounting for approximately 25.0%.

During the year, the Group's results were hit by escalating raw material costs and labour costs in China. The price of copper (used in power cord and motors) and aluminium (used in iron soleplates) as quoted on the London Metal Exchange increased by approximately 62% and 28% respectively during the year ended 31 March 2006. Minimum wage in Shenzhen also increased from RMB480 to RMB580 per month in July 2005 (and then to RMB700 in July 2006). Thanks to the better margin of the new products launched during the year, the Group's gross profit margin recorded a slight improvement despite escalating costs.

The Group reduced its Hong Kong-based workforce by nearly one-third during the year. The decision was painful but necessary to maintain competitiveness in a difficult business environment.



Chairman's Statement

PROSPECTS AND OUTLOOK

Electrical appliance manufacturers will continue to face challenges in the coming year. The Group has successfully asked for price increases from customers to reflect the rise in raw material costs. However, the increase in raw material prices and labour costs in China will likely continue into the coming year. The Group's long term strategy is to rationalize its product mix by phasing out low-margin products while developing new products at the high-end tier.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders for their confidence in the Group, our worldwide customers for their trust and support in our products and services through the years, our staff for their dedication as well as our bankers and business associates for their continuing support.

Chan Tat
Chairman

Hong Kong, 25 July 2006



Management Discussion and Analysis



LIQUIDITY AND FINANCIAL RESOURCES, GEARING AND FOREIGN CURRENCY EXPOSURES

As at 31 March 2006, the Group had total bank borrowings of approximately HK\$25,369,000 (2005: HK\$22,017,000). Cash and bank balances amounted to approximately HK\$4,610,000 (2005: 19,713,000). The gearing ratio, expressed as a percentage of bank borrowings to total equity, was approximately 72.4% (2005: 42.4%). The Group also made use of export bills discount facilities to finance its operations during the year.

Current ratio was approximately 1.06 as at 31 March 2006 (2005: 1.36). Average stock turnover period increased to approximately 62 days as compared to 59 days in the previous year. Average debtor turnover period increased from approximately 11 days to approximately 16 days.

The Group continues to adopt a prudent approach in funding and treasury policies. Transactions of the Group are mainly denominated in US dollar, Sterling Pound, HK dollar and Renminbi. All borrowings are denominated in HK dollar. During the year ended 31 March 2006, the Group used forward exchange contracts to hedge its exposure to the Sterling Pound. Furthermore, since the Group's revenues and expenditures were predominantly denominated in US dollar and HK dollar respectively, the recent strengthening of the HK dollar against the US dollar due to the influx of "hot money" into the Hong Kong investment market had an adverse impact to the Group. As such, the Group entered into a one-year option contract in March 2006 under which the Group would exchange US dollar to HK dollar at predetermined rates.

CAPITAL EXPENDITURE

Capital expenditure for the year ended 31 March 2006 totalled approximately HK\$9,736,000 (2005: HK\$13,941,000) which mainly consisted of investments in new equipment and moulds.

Management Discussion and Analysis

CHARGES ON GROUP'S ASSETS

There were no charges on the Group's assets as at 31 March 2006 (2005: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2006, the Group employed approximately 1,700 full time staff in Hong Kong and the PRC. The Group remunerates its employees based on their performance, experience and prevailing market salaries while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, mandatory provident fund scheme as well as a share option scheme.

CONTINGENT LIABILITIES

Details of contingent liabilities are set out in Note 28 to the financial statements.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Chan Tat, aged 73, is the chairman of the Company and the co-founder of the Group. Mr. Chan is responsible for the Group's overall strategic planning and formulation of corporate policies. Mr. Chan has over 21 years of experience in the manufacturing and sales of home electrical appliances since founding the Group in December 1984. Mr. Chan is presently a member of the Zhaoqing City Chinese People Political Consultative Committee. Mr. Chan is the husband of Madam Hong Jing Yu.

Mr. Poon Tat Hang, aged 33, is the chief executive officer and financial controller of the Company. He is responsible for the overall management of the Group. Mr. Poon is a member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants. He holds a bachelor's degree in Applied Science from the University of British Columbia, Canada. Prior to joining the Group in March 2004, Mr. Poon had gained over 6 years of experience in the banking and corporate finance industry.

Mr. Lee Kam Hung, aged 38, is the marketing director of the Company. He is responsible for the Group's marketing and sales activities, maintenance of business relationships with the Group's overseas customers and product development. He has over 13 years of experience in the manufacture and sales of home electrical appliances. He joined the Group in August 1992.

NON-EXECUTIVE DIRECTOR

Madam Hong Jing Yu, aged 73, is the non-executive director of the Company and the co-founder of the Group. Madam Hong is not responsible for the daily operations of the Group. Her role in the Group is to advise on the Group's overall strategic planning. She has over 20 years of experience in the manufacturing and sales of home electrical appliances with the Group. Madam Hong is the wife of Mr. Chan Tat.

Directors and Senior Management Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hong Yee Kwong, Paul, aged 40, was appointed as an independent non-executive director on 13 May 2002. He has been working in architectural firms since November 1996 and currently as an architect. He has over 12 years of experience in the design, construction and administration of building projects in Hong Kong. He obtained bachelor's degrees in science (architecture) in 1991 and in architecture in 1994 from the University of Sydney, Australia. Mr. Hong is a member of the Hong Kong Institute of Architects and a Registered Architect and Authorised Person (List of Architects) in Hong Kong.

Mr. Lam King Pui, aged 40, was appointed as an independent non-executive director on 28 September 2004. He is the chief financial officer of a jewellery retailer in Hong Kong and an independent non-executive director of Hopefluent Group Holdings Limited, listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 733). He holds a Bachelor of Arts degree in accountancy from the Hong Kong Polytechnic University. Mr. Lam is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

Mr. Wu Tai Cheung, aged 49, was appointed as an independent non-executive director on 1 January 2006. He holds a bachelor's degree in accountancy and a master's degree in business administration. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He is currently the qualified accountant and company secretary of a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

▮ Directors and Senior Management Profile

SENIOR MANAGEMENT

Mr. Wong Nin Yuen, Penguin, aged 39, is the operation controller of the Group. Mr. Wong has over 17 years of experience in production material requisition planning and control. He is responsible for overseeing the manufacturing operation of the Group. He joined the Group in October 1991.

Mr. Chan Ping Keung, aged 50, is the purchasing manager of the Group. Mr. Chan has over 22 years of experience in purchasing and engineering matters in the home electrical appliances industry and is responsible for the purchasing function of the Group. He joined the Group in 1985.

Mr. Tse Lai Man, aged 42, is the research and development engineering manager of the Group. Mr. Tse has over 20 years of engineering experience and is responsible for the research and development of the Group including product design, product drawing and product testing. He joined the Group in February 2001.

Mr. Liu Sik Kwong, aged 35, is the production engineering manager of the Group. Mr. Liu has over 17 years of experience in production engineering including process flow design, production line set-up, workstudy and trouble shooting. He is responsible for the production engineering function of the Group. He joined the Group in February 1992.

Mr. Lau Siu Ming, aged 37, is the accounting manager of the Group. Mr. Lau holds a bachelor's degree of business administration in accounting from the National Chengchi University, Taiwan and has over 10 years of experience in financial and cost accounting. He is responsible for the management accounting function of the Group. He joined the Group in July 1997.

Report of the Directors

The board of directors (the "Board") presents herewith its annual report together with the audited financial statements of BEP International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 March 2006.

CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda on 19 October 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries consist of design, manufacture and sale of home electrical appliances, details of which are set out in Note 17 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 21 of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 March 2006.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in Note 16 to the financial statements.

RELATED PARTY TRANSACTIONS

Details of related party transactions, which also constituted connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), are set out in Note 31 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the Company's share capital and share option scheme are set out in Notes 25 and 26 to the financial statements respectively.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 27 to the financial statements.

The Company's reserves available for distribution to shareholders as at 31 March 2006 amounted to approximately HK\$7,919,000 (2005: HK\$27,922,000) consisting of contributed surplus of approximately HK\$63,884,000 (2005: HK\$63,884,000) less accumulated losses of approximately HK\$55,965,000 (2005: HK\$35,962,000).

Report of the Directors

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in Note 12 to the financial statements.

DIRECTORS

The directors of the Company during the year ended 31 March 2006 and up to the date of this report were:

Executive directors

Mr. Chan Tat (*Chairman*)

Mr. Poon Tat Hang (*Chief Executive Officer*)

Mr. Lee Kam Hung

Mr. Sin Cheuk Lok, Christopus

Resigned on 27 June 2005

Mr. Kwong Tat-Wai, David

Resigned on 12 January 2006

Non-executive director

Madam Hong Jing Yu

Independent non-executive directors

Mr. Hong Yee Kwong, Paul

Mr. Lam King Pui

Mr. Wu Tai Cheung

Appointed on 1 January 2006

Mr. Wong Tik Tung

Resigned on 4 October 2005

In accordance with Articles 86, 87 and 88 of the Company's bye-laws, Mr. Lee Kam Hung, Mr. Hong Yee Kwong, Paul and Mr. Wu Tai Cheung will retire at the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has entered into any service contract with any member of the Group which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 31 to the financial statements, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2006, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in underlying shares

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

Name of Directors	Date of Grant	Exercise Period	Exercise Price HK\$	Number of shares subject to outstanding options as at 31.3.2006	Approximate percentage of the Company's issued share capital
Mr. Chan Tat	13.08.2003	13.08.2003 to 02.03.2013	0.69	1,000,000	0.42%
Mr. Lee Kam Hung	13.08.2003	18.08.2003 to 02.03.2013	0.69	500,000	0.21%

These options vested immediately from the date of grant.

No share option was exercised by the above directors to subscribe for shares in the Company during the year.

Save as disclosed above, as at 31 March 2006, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2006, the interests and short positions of shareholders (other than a director or chief executive) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Long position in shares

Name of Shareholders	Capacity	Long Positions in shares (Corporate Interest)	Approximate percentage of the Company's issued share capital
Best Practice Enterprises Limited (<i>Note 1</i>)	Trustee	86,360,000	35.98%
Target World Enterprises Limited (<i>Note 2</i>)	Trustee	86,290,000	35.95%
HSBC International Trustee Limited (<i>Note 3</i>)	Trustee	172,650,000	71.93%

Notes:

- Best Practice Enterprises Limited is the trustee of the SC Unit Trust holding property under the SC Unit Trust for the trustee of the SC Trust, which is a holder of units issued by the SC Unit Trust. All the units issued by SC Unit Trust are held by the trustee of the SC Trust, namely HSBC International Trustee Limited. The SC Trust is a discretionary trust and the discretionary objects of the trust include Miss Chan Sin Mui, Selina, daughter of Mr. Chan Tat and Madam Hong Jing Yu, and the issue of Miss Chan Sin Mui, Selina.
- Target World Enterprises Limited is the trustee of the MK Unit Trust holding property under the MK Unit Trust for the trustee of the MK Trust, which is a holder of units issued by the MK Unit Trust. All the units issued by MK Unit Trust are held by the trustee of the MK Trust, namely HSBC International Trustee Limited. The MK Trust is a discretionary trust and the discretionary objects of the trust include Mr. Chan Man Kei, son of Mr. Chan Tat and Madam Hong Jing Yu and the issue of Mr. Chan Man Kei.
- Best Practice Enterprises Limited and Target World Enterprises Limited are both owned as to 100% by HSBC International Trustee Limited.

Save as disclosed above, as at 31 March 2006, no person (other than a director or chief executive) had any interest or short position in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's turnover and purchases attributable to the major customers and suppliers during the financial year is as follows:

	Percentage of the Group's total	
	Turnover	Cost of purchases
The largest customer	18%	–
Five largest customers in aggregate	47%	–
The largest supplier	–	8%
Five largest suppliers in aggregate	–	30%

At no time during the year did the directors, their respective associates and any shareholder of the Company (which, to the best knowledge of the directors, owns more than 5% of the Company's issued share capital) have any interest in any of the five largest customers and suppliers of the Group.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2006.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PUBLIC FLOAT

Based on the information that was publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company maintained sufficient public float of not less than 25% as required under the Listing Rules for the year ended 31 March 2006.

AUDITORS

The accompanying financial statements were audited by HLB Hodgson Impey Cheng. A resolution for the re-appointment of HLB Hodgson Impey Cheng as the auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chan Tat

Chairman

Hong Kong, 25 July 2006

Corporate Governance Report

The Board recognizes the importance of good corporate governance. To this end, the Board has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules. In the opinion of the Board, the Company complied with the provisions of the Code throughout the year ended 31 March 2006 except the following:

Code Provision A4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the bye-laws of the Company (the "Bye-laws"), (i) any director appointed to fill a casual vacancy shall hold office until the next annual general meeting and shall then be eligible for re-election at the meeting; and (ii) at each annual general meeting one-third of the directors (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation except for any director holding office as the chairman of the Board and/or the managing director of the Company.

The Board will propose relevant amendments to be made to the Bye-laws at the forthcoming annual general meeting.

BOARD OF DIRECTORS

The Board provides leadership and guidance for the Group and oversees the Group's business directions, strategic decisions and financial performances. The Board delegates to the management team the day-to-day operation of the Group's business. Management is empowered to business decisions as long as they follow the strategies and plans developed by the Board.

The Board comprises 3 executive directors, 1 non-executive director and 3 independent non-executive directors. Save for the fact that Ms. Hong Jing Yu, an non-executive director, is the wife of Mr. Chan Tat, the Chairman, there is no relationship (including financial, business, family or other material/relevant relationships) among the members of the Board.

The non-executive directors (including the independent non-executive directors) have been appointed for a fixed term of one year expiring on 31 July 2007.

More than one-third of the Board is independent non-executive directors and two of them have appropriate accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. Each of the independent non-executive directors has confirmed their independence in accordance with the guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors to be independent.

Corporate Governance Report

The Board meets at least 4 times a year. 6 meetings were held during the year ended 31 March 2006. The individual attendance of the Directors at these meetings was as follows:

Name of director	Number of attendances
<i>Executive directors</i>	
Chan Tat (<i>Chairman</i>)	5/6
Poon Tat Hang (<i>Chief Executive Officer</i>)	6/6
Lee Kam Hung	4/6
Sin Cheuk Lok, Christopus (resigned on 27 June 2005)	1/6
Kwong Tat-Wai, David (resigned on 12 January 2006)	2/6
<i>Non-executive director</i>	
Hong Jing Yu	4/6
<i>Independent non-executive directors</i>	
Hong Yee Kwong, Paul	2/6
Lam King Pui	2/6
Wu Tai Cheung (appointed on 1 January 2006) (<i>Note</i>)	0/6
Wong Tik Tung (resigned on 4 October 2005)	1/6

Note: No meeting had been held after the appointment of Mr. Wu.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman and chief executive officer of the Company are Mr. Chan Tat and Mr. Poon Tat Hang respectively. Their roles are divided such that the chairman is responsible for managing the Board and the chief executive officer is responsible for managing the day-to-day operations of the Group.

BOARD COMMITTEES

The Board has established two committees, namely the Audit Committee and Remuneration Committee, with specific written terms of reference.

Corporate Governance Report

AUDIT COMMITTEE

The Audit Committee is responsible for assisting the Board in applying financial reporting and internal control principles and in maintaining an appropriate relationship with the Company's auditors.

The Audit Committee comprises the three independent non-executive directors. It held 3 meetings during the year ended 31 March 2006. The individual attendance of the members of the Audit Committee at these meetings was as follows:

Name of member	Number of Attendances
Lam King Pui (<i>Chairman</i>)	3/3
Hong Yee Kwong, Paul	3/3
Wong Tik Tung (resigned on 4 October 2005)	1/3
Wu Tai Cheung (appointed on 1 January 2006)	1/3

The work performed by the Audit Committee in the year ended 31 March 2006 included:

- Reviewed the annual report
- Reviewed the interim report
- Met with the Company's auditors to discuss the accounting policies of the Group and the scope of the audit
- Reviewed the remuneration of the Company's auditors in respect of audit and non-audit services
- Reviewed the effectiveness of the Group's internal control systems

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for assisting the Board in determining and monitoring the Group's remuneration policy for directors and senior management. It comprises the three independent non-executive directors. It met once during the year ended 31 March 2006 to review the remuneration of directors and senior management.

Name of member	Number of Attendances
Hong Yee Kwong, Paul (<i>Chairman</i>)	1/1
Lam King Pui	1/1
Wong Tik Tung (resigned on 4 October 2005)	1/1
Wu Tai Cheung (appointed on 1 January 2006)	0/1

Corporate Governance Report

NOMINATION OF DIRECTORS

Power to nominate directors vests in the Board. According to the bye-laws of the Company, the Board may appoint any person as a director either to fill a casual vacancy on the Board or as an addition to the Board. Any nomination should take into consideration of the nominee's qualification, ability and potential contribution to the Group.

The Board has not established a nomination committee. The Board believes it can competently select candidates for directorship without setting up a committee for such purpose.

On 11 July 2005, the Board appointed Mr. Kwong Tat-Wai, David as executive director. Mr. Kwong subsequently resigned on 12 January 2006 on his own accord.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code of conduct regarding directors' securities transactions. Specific enquiry has been made of all directors who have confirmed in writing their compliance with the required standards set out in Model Code during the year ended 31 March 2006.

AUDITORS' REMUNERATION

For the year ended 31 March 2006, the following fees were paid or are payable to the Company's auditors:

Fees for audit services:	HK\$310,000
Fees for non-audit services:	
Interim review	HK\$40,000
Tax advisory	HK\$73,900

INTERNAL CONTROL

The Board has reviewed the internal control systems of the Group and concluded that it was effective in terms of safeguarding the shareholders' investments and the Group's assets throughout the year ended 31 March 2006.

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of the financial statements of each financial period which give a true and fair view of the state of affairs of the Group. The financial statements for the year ended 31 March 2006 were prepared on a going concern basis and in accordance with statutory requirements and applicable accounting standards.

Summary Financial Information

The following is a summary of the results, assets and liabilities of the Group for the five years ended 31 March 2006 prepared on the basis as set out in the note below:

RESULTS

	Year ended 31 March				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	280,876	204,472	209,429	288,455	324,261
(Loss)/profit before taxation	(18,323)	(26,507)	(11,257)	30,595	35,141
Income tax	–	(462)	617	(3,120)	(3,123)
Net (loss)/profit attributable to equity holders of the Company	(18,323)	(26,969)	(10,640)	27,475	32,018

ASSETS AND LIABILITIES

	As at 31 March				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Non-current assets	31,098	33,437	31,224	28,449	24,366
Current assets	84,167	71,292	83,784	90,961	57,176
Current liabilities	79,779	52,283	35,593	23,938	25,555
Non-current liabilities	461	461	461	1,078	1,750
Net assets	35,025	51,985	78,954	94,394	54,237

Note:

The Company was incorporated in Bermuda as an exempted company with limited liability on 19 October 2000 and became the holding company of the companies now comprising the Group on 6 January 2003 pursuant to a group reorganisation scheme in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange. The above financial summaries of the results of the Group for each of the two years ended 31 March 2003, and of the assets and liabilities of the Group as at 31 March 2002 and 2003, have been prepared as if the current structure of the Group had been in existence throughout the two years ended 31 March 2003. The financial summaries of the results of the Group for the three years ended 31 March 2004, 2005 and 2006 and of its assets and liabilities as at those dates have been extracted from the Group's published annual reports.

Auditors' Report



Chartered Accountants
Certified Public Accountants

TO THE SHAREHOLDERS OF
BEP INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

We have audited the financial statements on pages 21 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2006 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 25 July 2006

Consolidated Income Statement

For the year ended 31 March 2006

	Note	2006 HK\$'000	2005 HK\$'000
Turnover	6	280,876	204,472
Cost of sales		(266,494)	(202,283)
Gross profit		14,382	2,189
Other operating income	7	1,801	215
Selling and distribution costs		(8,498)	(6,326)
Administrative expenses		(23,209)	(21,473)
Operating loss	8	(15,524)	(25,395)
Finance costs	9	(2,799)	(1,112)
Loss before taxation		(18,323)	(26,507)
Income tax	13	–	(462)
Loss for the year attributable to the equity holders of the Company	14	(18,323)	(26,969)
Dividends		–	–
Loss per share			
Basic	15	(7.63) cents	(11.2) cents
Diluted	15	N/A	N/A

Consolidated Balance Sheet

As at 31 March 2006

	Note	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Property, plant and equipment	16	<u>31,098</u>	<u>33,437</u>
Current assets			
Inventories	18	52,075	37,748
Trade and other receivables	19	26,923	13,452
Tax recoverable		379	379
Derivative financial instruments	20	180	–
Bank balances and cash	21	<u>4,610</u>	<u>19,713</u>
		<u>84,167</u>	<u>71,292</u>
Less: Current liabilities			
Trade and other payables	22	54,410	30,266
Short-term bank borrowings – due within one year	23	<u>25,369</u>	<u>22,017</u>
		<u>79,779</u>	<u>52,283</u>
Net current assets		<u>4,388</u>	<u>19,009</u>
Total assets less current liabilities		<u>35,486</u>	<u>52,446</u>
Less: Non-current liabilities			
Deferred tax liabilities	24	<u>461</u>	<u>461</u>
Net assets		<u>35,025</u>	<u>51,985</u>
Capital and reserves			
Share capital	25	2,400	2,400
Reserves	27	<u>32,625</u>	<u>49,585</u>
Equity attributable to the equity holders of the Company		<u>35,025</u>	<u>51,985</u>

The financial statements on pages 21 to 55 were approved and authorized for issue by the Board of Directors on 25 July 2006 and signed on its behalf by:

Chan Tat
Director

Poon Tat Hang
Director

Balance Sheet

As at 31 March 2006

	Note	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Investments in subsidiaries	17	9,484	29,484
Current assets			
Amounts due from subsidiaries	17	23,259	23,187
Bank balances and cash		100	175
		23,359	23,362
Total assets		32,843	52,846
Capital and reserves			
Share capital	25	2,400	2,400
Reserves	27	30,443	50,446
Equity attributable to the equity holders of the Company		32,843	52,846

Chan Tat
Director

Poon Tat Hang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Opening balance of equity	51,985	78,954
Exchange difference on translation of foreign operations	1,363	–
Net income recognized directly in equity	1,363	–
Loss for the year attributable to the equity holders of the Company	(18,323)	(26,969)
Total recognized expenses for the year	(16,960)	(26,969)
Closing balance of equity	35,025	51,985

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	2006 HK\$'000	2005 HK\$'000
Cash flows from operating activities		
Loss before taxation	(18,323)	(26,507)
Adjustments for:		
Interest income from bank deposits	(68)	(38)
Depreciation	12,075	11,728
Interest expense	1,739	386
Fair value gains on derivative financial instruments	(180)	–
Gain on disposal of property, plant and equipment	–	(30)
Operating cash flows before working capital changes	(4,757)	(14,461)
Inventories	(14,327)	(10,473)
Trade and other receivables	(13,471)	970
Trade and other payables	24,144	9,673
Cash used in operations	(8,411)	(14,291)
PRC enterprise income tax paid	–	(462)
Net cash used in operating activities	(8,411)	(14,753)
Cash flows from investing activities		
Interest received	68	38
Proceeds from disposal of property, plant and equipment	–	30
Payments to acquire property, plant and equipment	(9,736)	(13,941)
Net cash used in investing activities	(9,668)	(13,873)
Cash flows from financing activities		
Proceeds from short-term bank borrowings	29,077	22,017
Repayment of short-term bank borrowings	(25,725)	(15,000)
Interest paid	(1,739)	(386)
Net cash generated from financing activities	1,613	6,631
Decrease in cash and cash equivalents	(16,466)	(21,995)
Cash and cash equivalents at beginning of the year	19,713	41,708
Effect of foreign exchange rate changes	1,363	–
Cash and cash equivalents at end of the year	4,610	19,713
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	4,610	19,713

Notes to the Financial Statements

For the year ended 31 March 2006

1. CORPORATE INFORMATION

BEP International Holdings Limited (the "Company") was incorporated in Bermuda on 19 October 2000 as an exempted company with limited liability. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 March 2003.

The Company's registered office is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and its principal place of business is situated at Units 909-912, 9th Floor, Fo Tan Industrial Centre, 26-28 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong.

The financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company. All values are rounded to the nearest thousand (HK\$'000) unless otherwise stated.

The Company is an investment holding company. The Group is principally engaged in the design, manufacture and sale of home electrical appliances with production facilities based in the People's Republic of China (the "PRC"). Details of the Company's subsidiaries are set out in Note 17.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarized below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Notes to the Financial Statements

For the year ended 31 March 2006

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognized in profit or loss directly. Other financial liabilities are carried at amortized cost using the effective interest method after initial recognition. This change has had no material effect on the results for the current and prior accounting periods.

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised. The Group is required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. The adoption of this new standard has had no material effect on how the results for the prior accounting years are prepared and presented as all share options granted prior to 1 January 2005 were vested before 1 January 2005. Accordingly, no prior year adjustment is required.

Notes to the Financial Statements

For the year ended 31 March 2006

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

The HKICPA has issued the following standards and interpretations that are not yet effective. The Group has considered the following standards and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

		<i>Notes</i>
HKAS 1 (Amendment)	Capital Disclosures	1
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures	2
HKAS 21 (Amendment)	Net Investment in a Foreign Operation	2
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions	2
HKAS 39 (Amendment)	The Fair Value Option	2
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts	2
HKFRS 6	Exploration for and Evaluation of Mineral Resources	2
HKFRS 7	Financial Instruments: Disclosures	1
HKFRS-Int 4	Determining whether an Arrangement contains a Lease	2
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	2
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	3

Notes to the Financial Statements

For the year ended 31 March 2006

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

		<i>Notes</i>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	4
HK(IFRIC)-Int 8	Scope of HKFRS 2	5
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives	6

Notes:

1. Effective for annual periods beginning on or after 1 January 2007.
2. Effective for annual periods beginning on or after 1 January 2006.
3. Effective for annual periods beginning on or after 1 December 2005.
4. Effective for annual periods beginning on or after 1 March 2006.
5. Effective for annual periods beginning on or after 1 May 2006.
6. Effective for annual periods beginning on or after 1 June 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Notes to the Financial Statements

For the year ended 31 March 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

A subsidiary is a company that is controlled by the Company, where the Company has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Plant and machinery	:	10%
Moulds	:	30%
Furniture and fixtures	:	25%
Office equipment	:	25%
Motor vehicles	:	25%
Computer equipment	:	25%

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognized.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the first-in, first-out method. Cost of work-in-progress and finished goods includes materials, labor and appropriate portions of attributable overheads. Net realizable value represents the estimated selling price less all further costs to completion and direct selling costs.

Notes to the Financial Statements

For the year ended 31 March 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified into two categories, financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two sub-categories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables) are carried at amortized cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Notes to the Financial Statements

For the year ended 31 March 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

Financial liabilities

Financial liabilities including trade and other payables and short-term bank borrowings are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

There are three types of hedge relationships, including fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. Hedges are classified as fair value hedges when hedges are made to hedge against exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment. Alternatively, hedges are classified as cash flow hedges when hedges are made to hedge against exposure to variability in cash flows that are attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction. The accounting treatments of fair value hedges, cash flows hedges and hedges of a net investment are set out below:

Fair value hedges

For fair value hedges that qualify for hedge accounting, gains or losses arising on changes in fair values of hedging instruments are recognized immediately in profit or loss. At the same time, gains or losses on the hedged item attributable to the hedged risk are adjusted to the carrying amount of the hedged item and are recognized in profit or loss.

Cash flow hedges

For cash flow hedges that qualify for hedge accounting, the effective portion of the gains or losses arising on the changes in fair value of hedging instruments is initially recognized in equity and "recycled" into the income statement when the hedged item affects profit or loss. The ineffective portion is recognized immediately in profit or loss.

Notes to the Financial Statements

For the year ended 31 March 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedging *(Continued)*

Hedges of a net investment

Similar to cash flow hedges, the effective portion of the gain or loss arising on the changes in fair value hedging instruments is initially deferred in equity and the ineffective portion is recognized in profit or loss. At the time when the relevant foreign operation is disposed of, the balance stated in equity will be transferred to profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that point in time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to profit or loss for the period.

Derivatives that do not qualify for hedge accounting

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognized directly in profit or loss.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership and control of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

For financial liabilities, they are removed from the Group's consolidated balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Notes to the Financial Statements

For the year ended 31 March 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity settled share-based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to retained profits/accumulated losses.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount (net of depreciation and amortization) that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

Revenue recognition

Revenue from the sale of products is recognized on the transfer of ownership when the significant risks and rewards of ownership have been transferred to the buyers, which generally coincides with the time of shipment.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Sundry income is recognized when received.

Notes to the Financial Statements

For the year ended 31 March 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

All borrowing costs are recognized as and included in finance costs in the income statement in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefits costs

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefits schemes are charged as expenses as they fall due. The Group's obligations under state-managed retirement benefits schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

Notes to the Financial Statements

For the year ended 31 March 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation in which case, such exchange differences are recognized in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Financial Statements

For the year ended 31 March 2006

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of property, plant and equipment

The Group evaluates whether items of property, plant and equipment have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the stated accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Estimated useful lives of property, plant and equipment

Management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment loss of trade and other receivables

The Group's policy for doubtful receivables is based on the on-going evaluation of the collectability and aging analysis of the trade and other receivables and on management's judgments. Considerable judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each debtor, and the present values of the estimated future cash flows discounted at the effective interest rates. If the financial conditions of the Group's debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss of trade and other receivables may be required.

Notes to the Financial Statements

For the year ended 31 March 2006

5. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables and short-term bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain trade and other receivables, bank balances and cash, trade and other payables and short-term bank borrowings of the Group are denominated in foreign currencies. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2006 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the management of the Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

Interest rate risk

The Group's cash flow interest rate risk relates to its short-term bank borrowings which are interest bearing at floating rate.

Notes to the Financial Statements

For the year ended 31 March 2006

6. TURNOVER AND SEGMENT INFORMATION

Turnover represents amounts received and receivable from outside customers from sales of products during the year.

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format and business segments as the secondary reporting format. In determining the Group's geographical segments, revenue is attributed to the segments based on the destination of delivery of products, and assets and liabilities are attributed to the segments based on the location of the assets and liabilities.

Geographical segments

	Europe		North America		Australia and New Zealand		Asia and Middle East		Others		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
TURNOVER	157,838	132,585	70,243	36,462	15,990	14,762	16,320	6,634	20,485	14,029	280,876	204,472
RESULTS												
Segment results	(9,770)	(14,304)	(1,632)	(3,969)	(1,005)	(2,670)	(2,134)	(2,193)	(983)	(2,259)	(15,524)	(25,395)
Finance costs											(2,799)	(1,112)
Loss before taxation											(18,323)	(26,507)
Income tax											-	(462)
Loss for the year											(18,323)	(26,969)
ASSETS												
Segment assets	-	-	-	-	-	-	115,265	104,729	-	-	115,265	104,729
LIABILITIES												
Segment liabilities	-	-	-	-	-	-	80,240	52,744	-	-	80,240	52,744
OTHER INFORMATION												
Capital expenditure	-	-	-	-	-	-	9,736	13,941	-	-	-	-
Depreciation of property, plant and equipment	-	-	-	-	-	-	12,075	11,728	-	-	-	-

The Group's operations, and assets and liabilities are located in the PRC including Hong Kong.

Business segments

The Group's turnover and assets are substantially attributable to the design, manufacture and sale of home electrical appliances. Accordingly, no analysis by business segment is presented.

Notes to the Financial Statements

For the year ended 31 March 2006

7. OTHER OPERATING INCOME

	2006 HK\$'000	2005 HK\$'000
Interest income from bank deposits	68	38
Fair value gains on derivative financial instruments		
– transactions not qualifying as hedges	180	–
Sundry income	1,553	177
	1,801	215

8. OPERATING LOSS

	2006 HK\$'000	2005 HK\$'000
Operating loss has been arrived at after charging/(crediting):		
Staff costs		
– Directors' emoluments (Note 10)	3,814	3,907
– Staff salaries and wages	31,968	23,539
– Staff retirement benefits schemes contributions	462	433
	36,244	27,879
Depreciation of owned property, plant and equipment	12,075	11,728
Operating lease rentals in respect of land and buildings	3,560	3,479
Auditors' remuneration	310	310
Cost of inventories expensed	266,494	202,283
Gain on disposal of property, plant and equipment	–	(30)
Net foreign exchange losses	203	205

Notes to the Financial Statements

For the year ended 31 March 2006

9. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Bank charges	1,060	726
Interest on short-term bank borrowings and bank overdrafts wholly repayable within five years	1,739	386
	2,799	1,112

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the Company's directors are as follows:

For the year ended 31 March 2006

	Fees HK\$'000	Salaries and allowances HK\$'000	Retirement benefits schemes contributions HK\$'000	Total HK\$'000
Executive directors				
Mr. Chan Tat	–	1,430	–	1,430
Mr. Poon Tat Hang	–	773	12	785
Mr. Lee Kam Hung	–	649	12	661
Mr. Kwong Tat-Wai, David (Appointed on 11 July 2005 and resigned on 12 January 2006)	–	316	5	321
Mr. Sin Cheuk Lok, Christopus (Resigned on 27 June 2005)	–	164	3	167
Non-executive director				
Madam Hong Jing Yu	120	–	–	120
Independent non-executive directors				
Mr. Hong Yee Kwong, Paul	120	–	–	120
Mr. Lam King Pui	120	–	–	120
Mr. Wu Tai Cheung (Appointed on 1 January 2006)	30	–	–	30
Mr. Wong Tik Tung (Resigned on 4 October 2005)	60	–	–	60
Total	450	3,332	32	3,814

Notes to the Financial Statements

For the year ended 31 March 2006

10. DIRECTORS' EMOLUMENTS (Continued)

For the year ended 31 March 2005

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement benefits schemes contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors				
Mr. Chan Tat	–	1,430	–	1,430
Mr. Poon Tat Hang	–	723	13	736
Mr. Lee Kam Hung	–	649	12	661
Mr. Sin Cheuk Lok, Christopus	–	648	12	660
Non-executive director				
Madam Hong Jing Yu	120	–	–	120
Independent non-executive directors				
Mr. Hong Yee Kwong, Paul	120	–	–	120
Mr. Woo Kwok Yin (Resigned on 28 September 2004)	60	–	–	60
Mr. Lam King Pui (Appointed on 28 September 2004)	60	–	–	60
Wong Tik Tung (Appointed on 28 September 2004)	60	–	–	60
Total	<u>420</u>	<u>3,450</u>	<u>37</u>	<u>3,907</u>

There were no arrangements under which the directors of the Company have waived or agreed to waive any remuneration.

Notes to the Financial Statements

For the year ended 31 March 2006

11. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals of the Group for the year ended 31 March 2006 included three directors (2005: four directors) of the Company, whose emoluments have been disclosed above. Details of the remuneration of the remaining two (2005: one) highest paid, non-director employees of the Group are set out below:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Salaries and allowances	1,083	455
Retirement benefits schemes contributions	24	12
	1,107	467

The emoluments of each of the remaining two (2005: one) highest paid, non-director employees were within the band of nil to HK\$1,000,000.

During the year, no emoluments were paid by the Group to the five highest paid individuals, including the directors of the Company, as an inducement to join or upon joining the Group or as compensation for loss of office.

Compensation to key management personnel

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Short-term employee benefits	6,219	6,492
Post employment benefits	109	121
	6,328	6,613

Notes to the Financial Statements

For the year ended 31 March 2006

12. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees. During the year under review, the total amount contributed by the Group to the scheme and charged to the consolidated income statement amounted to approximately HK\$359,000 (2005: HK\$433,000). As at 31 March 2006, there were no forfeited contributions available for the Group to offset contributions payable in future years (2005: Nil).

Employees in the Group's PRC subsidiary are required to participate in a defined contribution retirement scheme operated by local municipal government. The PRC subsidiary is required to contribute approximately 8% of the employee payroll to the scheme in accordance with the relevant regulations in the PRC and such contributions are charged to the income statement as incurred. There were no forfeited contribution used to reduce future contributions as at 31 March 2006 (2005: Nil).

13. INCOME TAX

Hong Kong profits tax is calculated at a rate of 17.5% (2005: 17.5%) on the estimated assessable profit arising in Hong Kong for the year. No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong did not have any assessable profits arising in Hong Kong for both the current and prior years. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2006 HK\$'000	2005 HK\$'000
Current tax		
Provision for PRC enterprise income tax for the year	—	462

Notes to the Financial Statements

For the year ended 31 March 2006

13. INCOME TAX (Continued)

The taxation charge for the year can be reconciled to the loss before taxation per the income statement as follows:

	2006 HK\$'000	2005 HK\$'000
Loss before taxation	(18,323)	(26,507)
Notional tax on loss before taxation, calculated at 17.5% (2005: 17.5%)	(3,207)	(4,639)
Depreciation allowances in excess of related depreciation expenses	(50)	–
Tax effect of non-taxable revenue	(901)	(28)
Tax effects of unrecognized tax losses	4,158	5,129
Tax charge for the year	–	462

14. LOSS ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The loss attributable to the equity holders of the Company includes a loss of approximately HK\$20,003,000 (2005: HK\$36,001,000) which has been dealt with in the financial statements of the Company.

15. LOSS PER SHARE

The calculation of basic loss per share attributable to the equity holders of the Company is based on the loss for the year attributable to the equity holders of the Company of approximately HK\$18,323,000 (2005: HK\$26,969,000) and on the weighted average of 240,000,000 ordinary shares (2005: 240,000,000) in issue during the year.

The diluted loss per share for the years ended 31 March 2005 and 2006 has not been disclosed as the exercise of the Company's outstanding share options will have an anti-dilutive effect on the basic loss per share.

Notes to the Financial Statements

For the year ended 31 March 2006

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Plant and machinery HK\$'000	Moulds HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Total HK\$'000
At cost							
As at 1 April 2004	48,192	41,509	889	2,324	2,848	2,208	97,970
Additions	5,187	8,023	29	–	462	240	13,941
Disposals	–	–	–	–	(377)	–	(377)
As at 31 March 2005 and 1 April 2005	53,379	49,532	918	2,324	2,933	2,448	111,534
Additions	1,416	8,204	–	–	–	116	9,736
As at 31 March 2006	54,795	57,736	918	2,324	2,933	2,564	121,270
Accumulated depreciation							
As at 1 April 2004	25,518	33,949	889	1,682	2,848	1,860	66,746
Charge for the year	4,521	6,579	7	230	115	276	11,728
On disposals written back	–	–	–	–	(377)	–	(377)
As at 31 March 2005 and 1 April 2005	30,039	40,528	896	1,912	2,586	2,136	78,097
Charge for the year	3,989	7,531	7	230	116	202	12,075
As at 31 March 2006	34,028	48,059	903	2,142	2,702	2,338	90,172
Net book value							
As at 31 March 2006	20,767	9,677	15	182	231	226	31,098
As at 31 March 2005	23,340	9,004	22	412	347	312	33,437

Notes to the Financial Statements

For the year ended 31 March 2006

17. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

Company

	2006 HK\$'000	2005 HK\$'000
Unlisted shares at cost	65,484	65,484
Provision for impairment losses	(56,000)	(36,000)
	9,484	29,484

The amounts due from the subsidiaries as shown on the Company's balance sheet are unsecured, interest free and have no fixed terms of repayment. The directors consider that the carrying amounts approximate their fair values.

Particulars of the Company's subsidiaries as at 31 March 2006 are as follows:

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Principal activities	Attributable equity interest held by the Company	
				Directly	Indirectly
Better Electrical Products Company Limited ("BEPCL")	British Virgin Islands	10,000 ordinary shares of US\$1	Investment holding	100%	–
Better Electrical Products (HK) Company Limited ("BEP(HK)")	Hong Kong	10,000 ordinary shares HK\$1	Design, manufacture and sale of home electrical appliances	–	100%
Bailingda Industrial (Shenzhen) Co., Limited ("BEP(China)") (Note)	PRC	Registered capital US\$8,096,549	Manufacture of home electrical appliances	–	100%

Note: BEP (China) is a wholly foreign-owned enterprise established in the PRC. The PRC statutory financial statements of BEP (China) for the two years ended 31 December 2004 and 2005 were not audited by HLB Hodgson Impey Cheng. As at 31 March 2006, the Group was committed to contribute to the registered capital of BEP (China) in the amount of approximately US\$903,451 (equivalent to approximately HK\$7,047,000), the amount of which was fully paid subsequent to the balance sheet date.

Notes to the Financial Statements

For the year ended 31 March 2006

18. INVENTORIES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Raw materials	33,300	26,740	–	–
Work-in-progress	9,644	5,324	–	–
Finished goods	9,131	5,684	–	–
	52,075	37,748	–	–

19. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade receivables, with aged analysis (based on payment due date) (Note (i))				
0-30 days	16,801	6,023	–	–
31-60 days	73	43	–	–
61-180 days	264	55	–	–
Trade receivables	17,138	6,121	–	–
Bills receivable (Note (ii))	764	3	–	–
Deposits paid	3,248	2,034	–	–
Sundry debtors and prepayments	5,773	5,294	–	–
	26,923	13,452	–	–

Notes:

- (i) Trade debts which are settled by letters of credit are due at sight or in accordance with the respective terms of the letters of credit normally ranging from 30 to 120 days. For other trade debts, the Group provides a credit period normally ranging from 14 to 60 days to its customers.
- (ii) Bills receivable are due at sight or in accordance with the respective terms of the bills normally ranging from 30 to 120 days.
- (iii) The directors consider that the carrying amounts of trade and other receivables approximate their fair values.

Notes to the Financial Statements

For the year ended 31 March 2006

20. DERIVATIVE FINANCIAL INSTRUMENTS

Group	2006	
	Assets HK\$'000	Liabilities HK\$'000
Forward currency contracts	180	–

Notes:

- (i) The Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to approximately HK\$180,000 was charged to the income statement for the year ended 31 March 2006 (2005: Nil).
- (ii) The directors consider that the carrying amounts of derivative financial instruments approximate their fair values.

21. BANK BALANCES AND CASH

As at 31 March 2005, the bank balances and cash denominated in Renminbi amounted to approximately HK\$2,653,000 which remained not freely convertible into foreign currencies.

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade payables, with aged analysis (based on payment due date):				
0-30 days	42,362	21,522	–	–
31-60 days	3,316	661	–	–
61-180 days	1,579	268	–	–
Total trade payables	47,257	22,451	–	–
Bills payable	619	–	–	–
Trade deposits received	2,528	3,421	–	–
Other payables and accruals	4,006	4,394	–	–
	54,410	30,266	–	–

Note: The directors consider that the carrying amounts of trade and other payables approximate their fair values.

Notes to the Financial Statements

For the year ended 31 March 2006

23. SHORT-TERM BANK BORROWINGS

The short-term bank borrowings were secured by corporate guarantees given by the Company and its wholly-owned subsidiary, BEPCL, interest bearing at 1.25% per annum above London Interbank Offered Rate/Hong Kong Interbank Offered Rate and repayable within three months of the balance sheet date.

The directors consider that the carrying amounts of short-term bank borrowings approximate their fair values.

24. DEFERRED TAX LIABILITIES

The components of deferred tax liabilities recognized in the consolidated balance sheet are as follows:

Group

	Depreciation allowances in excess of related depreciation	
	2006	2005
	HK\$'000	HK\$'000
As at 1 April 2005, 31 March 2005 and 2006	<u>461</u>	<u>461</u>

A deferred tax asset has not been recognized in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which the asset can be utilized. As at 31 March 2006, the unprovided deferred tax asset of the Group is as follows:

	2006	2005
	HK\$'000	HK\$'000
Tax effect of temporary difference attributable to unutilized tax losses	<u>14,878</u>	<u>11,145</u>

The deductible temporary differences and unutilized tax losses do not expire under current tax legislation.

25. SHARE CAPITAL

	2006	2005
	HK\$'000	HK\$'000
Authorized:		
10,000,000,000 ordinary shares of HK\$0.01 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
240,000,000 ordinary shares of HK\$0.01 each	<u>2,400</u>	<u>2,400</u>

Notes to the Financial Statements

For the year ended 31 March 2006

26. SHARE OPTION SCHEME

On 6 January 2003, the shareholders of the Company approved and adopted a share option scheme (the "Scheme") for a period of ten years commencing from the date of listing of the Company's shares on the Stock Exchange on 3 March 2003. The purpose of the Scheme is to provide employees of the Group, including any executive directors of the Company and its subsidiaries, with the opportunity to acquire proprietary interests in the Company and to encourage employees to work towards enhancing the value of the Company and its shares. Under the Scheme, the Board may, at its discretion, invite any employees of the Group, including any executive directors of the Company and its subsidiaries, to take up options to subscribe for the Company's shares. Consideration of HK\$1 is payable on the grant of an option. The exercise price of the options may be determined by the Board in its absolute discretion but must not less than the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares on the date of grant. The options vest immediately from the date of grant and may be exercised in accordance with the terms of the Scheme at any time during the period to be determined and notified by the Board to each grantee but in any event such period may not be more than ten years after it has been granted. The total number of shares issued and to be issued upon exercise of options granted and to be granted to each grantee in any 12-month period up to and including the date of further grant must not exceed 1% of the shares in issue. Any further grant of options in excess of the above limit is subject to shareholders' approval in a general meeting. The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be issued under the Scheme and any other share option scheme adopted by the Company must not exceed 30% of the shares in issue from time to time.

As at 31 March 2006, the outstanding number of shares in respect of which share options had been granted under the Scheme was 2,600,000 (2005: 3,550,000), representing approximately 1.08% (2005: 1.48%) of the shares of the Company in issue at that date. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 2,600,000 additional ordinary shares of the Company and additional share capital of HK\$26,000 and share premium of HK\$1,768,000 (before issue expenses).

Notes to the Financial Statements

For the year ended 31 March 2006

26. SHARE OPTION SCHEME (Continued)

The following table discloses movements in the Company's share options under the Scheme during the year ended 31 March 2005 and 2006:

Name of directors/ employees	Date of grant	Exercisable period	Exercise price per share	Number of share options		
				Outstanding and exercisable as at 1 April 2004 and 2005	Lapsed during the year	Outstanding and exercisable as at 31 March 2006
Mr. Chan Tat	13 August 2003	13 August 2003 to 2 March 2013	HK\$0.69	1,000,000	–	1,000,000
Mr. Lee Kam Hung	13 August 2003	18 August 2003 to 2 March 2013	HK\$0.69	500,000	–	500,000
Mr. Sin Cheuk Lok, Christopus	13 August 2003	18 August 2003 to 2 March 2013	HK\$0.69	500,000	(500,000)	–
Directors				2,000,000	(500,000)	1,500,000
Employees	13 August 2003	18 August 2003 to 2 March 2013	HK\$0.69	1,550,000	(450,000)	1,100,000
Grand total				3,550,000	(950,000)	2,600,000

The share options were vested immediately from the date of grant. No share options were granted, exercised or expired during the year ended 31 March 2006.

Notes to the Financial Statements

For the year ended 31 March 2006

27. RESERVES

Group

	Share premium HK\$'000	Merger reserve HK\$'000 (Note (i))	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
As at 1 April 2004	22,524	(1,522)	–	55,552	76,554
Net loss for the year	–	–	–	(26,969)	(26,969)
As at 31 March 2005 and 1 April 2005	22,524	(1,522)	–	28,583	49,585
Exchange difference on translation of foreign operations	–	–	1,363	–	1,363
Net loss for the year	–	–	–	(18,323)	(18,323)
As at 31 March 2006	22,524	(1,522)	1,363	10,260	32,625

Company

	Share premium HK\$'000	Contributed surplus HK\$'000 (Note (ii))	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
As at 1 April 2004	22,524	63,884	39	86,447
Net loss for the year	–	–	(36,001)	(36,001)
As at 31 March 2005 and 1 April 2005	22,524	63,884	(35,962)	50,446
Net loss for the year	–	–	(20,003)	(20,003)
As at 31 March 2006	22,524	63,884	(55,965)	30,443

Notes:

- (i) On 6 January 2003, the Company became the holding company of the companies now comprising the Group pursuant to a group reorganization scheme (the "Group Reorganization") at the time of listing of the Company's shares on the main board of the Stock Exchange. The merger reserve of the Group represents the difference between the nominal value of the shares of BEPCL acquired pursuant to the Group Reorganization over the nominal value of the Company's shares issued in exchange therefor.
- (ii) The contributed surplus of the Company represents the difference between the fair value of the shares of BEPCL acquired pursuant to the Group Reorganization over the nominal value of the Company's shares issued in exchange therefor.

Under the Companies Act 1981 of Bermuda, a company may make distributions to its shareholders out of contributed surplus under certain circumstances as prescribed by section 54 thereof.

Notes to the Financial Statements

For the year ended 31 March 2006

28. CONTINGENT LIABILITIES

As at 31 March 2006, the Group had contingent liabilities arising from export bills discounted with recourse amounting to approximately HK\$14,598,000 (2005: HK\$8,880,000).

Save for a corporate guarantee given by the Company to a bank to secure the general banking facilities granted to BEP(HK), the Company has no significant contingent liabilities as at 31 March 2006 (2005: Nil).

29. CAPITAL COMMITMENTS

As at 31 March 2006, the Group had the following capital commitments which were not provided for in the financial statements:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Authorized and contracted for in respect of		
– Acquisition of the plant and machinery	150	130

As at 31 March 2005 and 2006, the Company had no significant capital commitments.

30. OPERATING LEASE COMMITMENTS

As at 31 March 2006, the Group had commitments for future minimum leases payments under non-cancelable operating leases in respect of rented premises which fall due as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within one year	3,335	3,479
In the second to fifth years inclusive	1,762	4,969
	5,097	8,448

The Company had no significant operating lease commitments as at 31 March 2005 and 2006.

Notes to the Financial Statements

For the year ended 31 March 2006

31. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the following significant related party transactions have been entered into by the Group during the year:

	2006 HK\$'000	2005 HK\$'000
Rental paid to Super Light Manufacturing Products (Shenzhen) Company Limited ("SLMP") (Note (i))	3,020	2,939
Rental paid to Manwise Investment Company Limited ("Manwise") (Note (ii))	540	540

Notes:

- (i) Pursuant to a tenancy agreement dated 14 October 2004, SLMP, a wholly-foreign owned enterprise established in the PRC and ultimately owned and controlled by Mr. Chan Tat, a director of the Company, leased to BEP (China) portions of an industrial complex located at Huang Ma Bu Village, Xi Xiang Town, Bao An District, Shenzhen, Guangdong Province, the PRC (the "Industrial Complex") for a term of three years commencing from 1 November 2004 and expiring on 31 October 2007 at a monthly rent of RMB260,000, exclusive of management fee and utility charges.

The aggregate rentals in respect of the Industrial Complex for the year ended 31 March 2006 amounted to approximately HK\$3,020,000 and the rentals for the remaining term of the tenancy agreement amounts to approximately HK\$4,782,000. The directors consider that such rentals were calculated by reference to open market rentals.

- (ii) Pursuant to a tenancy agreement dated 30 October 2003, Manwise, a company owned and controlled by Mr. Chan Tat and Madam Hong Jing Yu, directors of the Company, leased to BEP (HK) four workshop units as office premises located at Room 909-912, 9th Floor, Fo Tan Industrial Centre, 26-28 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong (the "Premises") for a term of three years commencing from 1 November 2003 and expiring on 31 October 2006 at a monthly rent of HK\$45,000, inclusive of rates and management fee.

The aggregate rentals in respect of the Premises for the year ended 31 March 2006 amounted to HK\$540,000 and the rentals for the remaining term of the tenancy amounts to HK\$315,000. The directors consider that such rentals were calculated by reference to open market rentals.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of BEP International Holdings Limited (the "Company") will be held at Room 909-912, Fotan Industrial Centre, 26-28 Au Pui Wan Street, Fo Tan, Shatin, New Territories on 25 August 2006 at 3:30 p.m. for the following purposes:

1. To receive and adopt the Audited Financial Statements of the Company and Reports of the Directors and Auditors for the year ended 31 March 2006.
2. To re-elect Directors and to fix the remuneration of Directors.
3. To re-appoint Auditors and authorise the Directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass, with or without amendments, the following resolution as an Ordinary Resolution:

ORDINARY RESOLUTION

"THAT:

- (a) subject to the provisions of paragraphs (b) and (c) below, the exercise by the Directors of all the powers of the Company to repurchase ordinary shares of HK\$0.01 each in the share capital of the Company on The Stock Exchange of Hong Kong Limited ("Stock Exchange") subject to and in accordance with all applicable laws and the provisions of, in the manner specified in the Rules Governing the Listing of Securities on the Stock Exchange be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares hereby authorised to be repurchased by the Company pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the Annual General Meeting of the Company at which this resolution is passed; and
- (c) the authority hereby conferred on the Company pursuant to the approval in paragraph (a) above shall expire on the earlier of (i) the conclusion of the next annual general meeting of the Company, or (ii) such period within which the next annual general meeting of the Company is required by any applicable laws or the Company's Bye-laws to be held, or (iii) such authority given under this resolution being renewed, revoked or varied by ordinary resolution of shareholders of the Company in general meeting."

Notice of Annual General Meeting

5. As special business, to consider and, if thought fit, pass, with or without amendments, the following resolution as an Ordinary Resolution:

ORDINARY RESOLUTION

“THAT:

- (a) subject to the provisions of paragraphs (b) and (c) below, the exercise by the Directors of all the powers of the Company to allot, issue and deal with additional authorised and unissued shares in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for shares and other rights of subscription for or conversion in shares, which might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the share capital to be allotted, issued and dealt with by the Directors of the Company pursuant to the approval in paragraph (a) above, other than as set out in paragraph (d) below, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the Annual General Meeting of the Company at which this resolution is passed;
- (c) the authority conferred on the Directors pursuant to paragraph (a) above shall expire on the earlier of (i) the conclusion of the next annual general meeting of the Company or (ii) such period within which the next annual general meeting of the Company is required by any applicable laws or the Company's Bye-laws to be held, or (iii) such authority being renewed, revoked or varied by ordinary resolution of the shareholders of the Company in general meeting, save that, in each case, this authority shall allow the Company before the expiry of this authority to make or grant offers, agreements and options (including warrants to subscribe for shares and other rights of subscription for or conversion into shares) which would or might require shares to be allotted and issued after such expiry and the Directors may allot, issue and deal with the shares in pursuance of such offers, agreements and options as if the authority conferred hereby had not expired; and
- (d) the provisions of paragraph (b) above shall not apply to the aggregate nominal amount of share capital allotted and/or issued or agreed to be conditionally or unconditionally issued and/or allotted by the Directors pursuant to:
 - (i) a right issue where shares are offered for a fixed period to shareholders in proportion to their then holdings of shares on a fixed record date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or stock exchange in, any territory applicable to the Company); or

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- (ii) any scrip dividend scheme or similar arrangements implemented in accordance with the Company's Bye-laws; or
 - (iii) the exercise of or grant of any option under any share options scheme of the Company or similar arrangement."
6. As special business, to consider and, if thought fit, pass, with or without amendments, the following resolution as an Ordinary Resolution:

ORDINARY RESOLUTION

"**THAT** conditional on the passing of Resolution 5 in the notice convening this meeting, the general mandate granted to the Directors and for the time being in force to exercise all the powers of the Company to allot, issue and deal with additional shares pursuant to Resolution 5 set out in the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed to be conditionally or unconditionally allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution 4, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution."

7. As special business, to consider and, if thought fit, pass, with or without amendments, the following resolution as a Special Resolution:

SPECIAL RESOLUTION

"**THAT** the Bye-laws of the Company be amended in the following manner:

(a) Bye-law 66

By inserting the words "voting by way of a poll is required by the rules of the Designated Stock Exchange or" after the words "a show of hands unless" in the third sentence of the Bye-law 66; and by deleting the full stop at the end of Bye-law 66(d) and replacing it with a semi-colon and inserting the word "or" after the semi-colon.

Then by inserting the following wording after Bye-law 66(d):

"(e) if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting."

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(b) Bye-law 68

By deleting the second sentence of Bye-law 68 in its entirety and substituting therefor the following:

“The Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the rules of the Designated Stock Exchange.”

(c) Bye-law 86

By deleting Bye-law 86(2) in its entirety and substituting therefor the following:

“(2) The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the Members in general meeting. Any Director so appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting.”

(d) Bye-law 87

By substituting the existing Bye-law 87(1) with the following new Bye-law 87(1):

“(1) Notwithstanding any other provisions in the Bye-laws, at each annual general meeting onethird of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than onethird) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.”

8. To transact any other business of the Company.

By order of the Board

BEP International Holdings Limited

Poon Tat Hang

Company Secretary

Hong Kong, 28 July 2006

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Notes:

1. A member entitled to attend and vote at the Annual General Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. To be valid, the form of proxy must be deposited with the Company's branch share registrar in Hong Kong, Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible and, in any event, not less than 48 hours before the time appointed for holding of the meeting.
3. The register of members of the Company will be closed from 22 August 2006 to 24 August 2006 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending the Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with Secretaries Limited at the address mentioned above for registration not later than 4:00 p.m. on 21 August 2006.