



BEP INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code :2326)



ANNUAL REPORT

07 |

INNOVATION
ELITE
DESIGN
EXPERIENCE
TECHNOLOGY



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Corporate Information

EXECUTIVE DIRECTORS

Mr. Chan Tat (*Chairman*)
Mr. Poon Tat Hang (*Chief Executive Officer*)
Mr. Chan Man Kei
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 BANKER

Hang Seng Bank Limited

STOCK CODE

2326

Financial Highlights

For the year ended 31 March

| | 2007 HK\$'000 | 2006 HK\$'000 | Percentage change |
|---------------------------|--------------------------------|------------------|----------------------|
| Turnover | 385,393 | 280,876 | 37.2% |
| Gross profit | 45,111 | 14,382 | 213.7% |
| Gross profit margin | 11.7% | 5.1% | 6.6% |
| Net profit/(loss) | 13,483 | (18,323) | N/A |
| Net profit/(loss) margin | 3.5% | (6.5%) | N/A |
| Earnings/(loss) per share | 5.62 cents | (7.63) cents | N/A |



Chairman's Statement

REVIEW OF OPERATIONS

Despite rising raw material costs, labour cost and Renminbi, the Group returned to profitability for the year ended 31 March 2007 after three consecutive years of losses. It achieved sales of approximately HK\$385,393,000 (2006: HK\$280,876,000) which broke all sales records in the history of the Group. Gross profit margin improved from approximately 5.1% to approximately 11.7%. Net profit attributable to equity holders of the Company was approximately HK\$13,483,000 (2006: net loss of approximately HK\$18,323,000).

The Group's product rationalization strategy was key to the turnaround of the previous loss-making situation. By focusing on high-end products, the Group was able to improve its profit margin while avoiding the cut-throat competition at the low-end market.

The Group relentlessly pursued its cost-cutting initiatives during the year. It kept a close watch on expenses such as electricity usage, overtime costs, welfare costs and freight charges. As a result, selling and distribution costs decreased from approximately HK\$8,498,000 to approximately HK\$7,778,000 despite an approximately 37.2% increase in sales. Administrative expenses also decreased from approximately HK\$23,209,000 to approximately HK\$20,798,000.

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 53.3% of our total sales in the year, followed by North America which accounted for approximately 28.3%. During the year we signed a supply contract with a major electrical appliance brand in Europe. Sales to this customer are expected to begin in the third quarter of 2007.

PROSPECTS

We maintain an optimistic outlook for the Group's business. Rising manufacturing costs in China is an inexorable trend, and there are no signs that raw material prices will decline soon. To survive and thrive in this business environment, we must emphasize innovation in our products.

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, 26 June 2007

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES, GEARING AND FOREIGN CURRENCY EXPOSURES

As at 31 March 2007, the Group had total bank borrowings of approximately HK\$19,428,000 (2006: HK\$25,369,000). Cash and bank balances amounted to approximately HK\$9,639,000 (2006: HK\$4,610,000). The gearing ratio, expressed as a percentage of bank borrowings to total equity, was approximately 38.3% (2006: 72.4%). The Group also made use of factoring and export bills discount facilities to finance its operations during the year.

Current ratio was approximately 1.33 as at 31 March 2007 (2006: 1.06). Average stock turnover period decreased to approximately 57 days as compared to 62 days in the previous year. Average debtor turnover period increased from approximately 16 days to approximately 22 days as more customers changed their trade terms from letters of credit to open account.

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 and US dollar. During the year, 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 Group entered into an option contract under which the Group would exchange US dollar to HK dollar at predetermined rates.

CAPITAL EXPENDITURE

Capital expenditure for the year ended 31 March 2007 totalled approximately HK\$6,014,000 (2006: HK\$9,736,000) which mainly consisted of investments in new equipment and moulds.

CHARGE ON GROUP'S ASSETS

During the year, the Group executed a debenture, which was essentially a pledge of all assets of the Group, in favour of a bank to secure banking facilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2007, the Group employed approximately 1,955 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 74, 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 had over 22 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 and the father of Mr. Chan Man Kei.

Mr. Poon Tat Hang, aged 34, is the chief executive officer and financial controller of the Group. He is responsible for the day-to-day 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. Chan Man Kei, aged 36, was appointed as an executive director on 1 November 2006. He is responsible for the Group's product design and marketing activities. He is also a director of a media company. Mr. Chan is the son of Mr. Chan Tat and Madam Hong Jing Yu.

Mr. Lee Kam Hung, aged 39, 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 14 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 74, 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 22 years of experience in the manufacturing and sales of home electrical appliances with the Group. Madam Hong is the wife of Mr. Chan Tat and the mother of Mr. Chan Man Kei.



INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hong Yee Kwong, Paul, aged 41, 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 13 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 41, 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 50, 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 the finance manager of a company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

SENIOR MANAGEMENT

Mr. Wong Nin Yuen, Penguin, aged 40, is the operation controller of the Group. Mr. Wong has over 18 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 51, is the purchasing manager of the Group. Mr. Chan has over 23 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 43, is the research and development engineering manager of the Group. Mr. Tse has over 21 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 36, is the production engineering manager of the Group. Mr. Liu has over 18 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 38, 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 11 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 2007.

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 2007 are set out in the consolidated income statement on page 19 of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 March 2007.

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.

CONTINUING CONNECTED TRANSACTIONS

The Group's related party transactions, which also constituted continuing connected transactions as defined 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.

The independent non-executive directors have reviewed the continuing connected transactions and confirmed that these transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on terms no less favourable to the Group than terms available from independent third parties; and
- (3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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 2007 amounted to approximately HK\$7,911,000 (2006: HK\$7,919,000) consisting of contributed surplus of approximately HK\$63,884,000 (2006: HK\$63,884,000) less accumulated losses of approximately HK\$55,973,000 (2006: HK\$55,965,000).

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 and up to the date of this report were:

Executive directors

Mr. Chan Tat (*Chairman*)

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

Mr. Chan Man Kei (appointed on 1 November 2006)

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

In accordance with Articles 86, 87 and 88 of the Company's bye-laws, Mr. Chan Tat, Mr. Poon Tat Hang, Mr. Chan Man Kei and Madam Hong Jing Yu 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.

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

As at 31 March 2007, 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 shares

| Name | Capacity and nature of interest | Number of shares | Approximate percentage of the Company's issued share capital |
|------------------|--------------------------------------|------------------|--|
| Mr. Chan Man Kei | Beneficiary of trust (<i>Note</i>) | 86,290,000 | 35.95% |

Note: Details of the interest of Mr. Chan Man Kei are set out in Note 2 to the section headed "Substantial Shareholders" below.

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 | Date of Grant | Exercise Period | Exercise Price HK\$ | Number of shares subject to outstanding options as at 31.3.2007 | 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 2007, 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2007, 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 | Capacity and nature of interests | Number of shares | 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 2007, 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 Group's turnover and purchases attributable to the major customers and suppliers during the year are as follows:

| | Percentage of the Group's total | |
|-------------------------------------|---------------------------------|-------------------|
| | Turnover | Cost of purchases |
| The largest customer | 28% | – |
| Five largest customers in aggregate | 68% | – |
| The largest supplier | – | 12% |
| Five largest suppliers in aggregate | – | 31% |

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, owned 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.

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 throughout the year.

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, 26 June 2007

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 except for Code Provision A4.2 which 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. In addition, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

At the annual general meeting held on 25 August 2006, the Company passed resolutions amending the by-laws of the Company to ensure compliance with the above Code Provision.

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 make business decisions as long as they follow the strategies and plans developed by the Board.

The Board comprises 4 executive directors, 1 non-executive director and 3 independent non-executive directors. Save for the fact that Mr. Chan Man Kei, an executive director, is the son of Mr. Chan Tat, the Chairman, and Ms. Hong Jing Yu, an non-executive director, 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.

The Board met 4 times during the year. The individual attendance of the Directors at these meetings is as follows:

| Name of director | Number of attendances |
|--|-----------------------|
| <i>Executive directors</i> | |
| Chan Tat (<i>Chairman</i>) | 3/4 |
| Poon Tat Hang (<i>Chief Executive Officer</i>) | 4/4 |
| Chan Man Kei (appointed on 1 November 2006) | 2/4 |
| Lee Kam Hung | 4/4 |
| <i>Non-executive director</i> | |
| Hong Jing Yu | 3/4 |
| <i>Independent non-executive directors</i> | |
| Hong Yee Kwong, Paul | 3/4 |
| Lam King Pui | 3/4 |
| Wu Tai Cheung | 3/4 |

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.

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. The individual attendance of the members of the Audit Committee at these meetings is as follows:

| Name of member | Number of Attendances |
|----------------------------------|------------------------------|
| Lam King Pui (<i>Chairman</i>) | 3/3 |
| Hong Yee Kwong, Paul | 3/3 |
| Wu Tai Cheung | 3/3 |

The work performed by the Audit Committee during the year 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 to review the remuneration of directors and senior management. The individual attendance of the members of the Remuneration Committee at the meeting is as follows:

| Name of member | Number of Attendances |
|--|-----------------------|
| Hong Yee Kwong, Paul (<i>Chairman</i>) | 1/1 |
| Lam King Pui | 1/1 |
| Wu Tai Cheung | 1/1 |

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 1 November 2006, the Board appointed Mr. Chan Man Kei as executive director.

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.

AUDITORS' REMUNERATION

The following fees were paid or payable to the Company's auditors during the year:

| | <i>HK\$'000</i> |
|---|-----------------|
| Fees for audit services: | 310 |
| Fees for non-audit services (tax advisory): | 35 |

Corporate Governance Report

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.

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 2007 were prepared on a going concern basis and in accordance with statutory requirements and applicable accounting standards.



Independent Auditors' Report



國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

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

We have audited the consolidated financial statements of BEP International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 19 to 55, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditors' Report

AUDITORS' RESPONSIBILITY *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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, 26 June 2007

Consolidated Income Statement

For the year ended 31 March 2007

| | Note | 2007 HK\$'000 | 2006 HK\$'000 |
|---|------|-------------------|------------------|
| Turnover | 6 | 385,393 | 280,876 |
| Cost of sales | | (340,282) | (266,494) |
| Gross profit | | 45,111 | 14,382 |
| Other operating income | 7 | 393 | 1,801 |
| Selling and distribution costs | | (7,778) | (8,498) |
| Administrative expenses | | (20,798) | (23,209) |
| Operating profit/(loss) | 8 | 16,928 | (15,524) |
| Finance costs | 9 | (3,081) | (2,799) |
| Profit/(Loss) before taxation | | 13,847 | (18,323) |
| Income tax | 13 | (364) | – |
| Profit/(Loss) for the year attributable to the equity holders of the Company | 14 | 13,483 | (18,323) |
| Dividends | | – | – |
| Earnings/(Loss) per share | | | |
| Basic | 15 | 5.62 cents | (7.63) cents |
| Diluted | 15 | N/A | N/A |

Consolidated Balance Sheet

At 31 March 2007

| | Note | 2007 HK\$'000 | 2006 HK\$'000 |
|---|------|-----------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 16 | <u>26,019</u> | <u>31,098</u> |
| Current assets | | | |
| Inventories | 18 | 54,960 | 52,075 |
| Trade and other receivables | 19 | 37,216 | 26,923 |
| Tax recoverable | | – | 379 |
| Derivative financial instruments | 20 | – | 180 |
| Bank balances and cash | 21 | 9,639 | 4,610 |
| | | <u>101,815</u> | <u>84,167</u> |
| Current liabilities | | | |
| Trade and other payables | 22 | 57,264 | 54,410 |
| Short-term bank borrowings – due within one year | 23 | 19,428 | 25,369 |
| | | <u>76,692</u> | <u>79,779</u> |
| Net current assets | | <u>25,123</u> | <u>4,388</u> |
| Total assets less current liabilities | | <u>51,142</u> | <u>35,486</u> |
| Non-current liabilities | | | |
| Deferred tax liabilities | 24 | <u>446</u> | <u>461</u> |
| Net assets | | <u>50,696</u> | <u>35,025</u> |
| Capital and reserves | | | |
| Share capital | 25 | 2,400 | 2,400 |
| Reserves | 27 | 48,296 | 32,625 |
| Equity attributable to the equity holders of the Company | | <u>50,696</u> | <u>35,025</u> |

The financial statements on pages 19 to 55 were approved and authorized for issue by the board of directors on 26 June 2007 and signed on its behalf by:

Chan Tat
Director

Poon Tat Hang
Director

Balance Sheet

At 31 March 2007

| | Note | 2007 HK\$'000 | 2006 HK\$'000 |
|---|------|----------------------|----------------------|
| Non-current assets | | | |
| Investments in subsidiaries | 17 | <u>9,484</u> | <u>9,484</u> |
| Current assets | | | |
| Amounts due from subsidiaries | 17 | <u>23,240</u> | <u>23,259</u> |
| Bank balances and cash | | <u>111</u> | <u>100</u> |
| | | <u>23,351</u> | <u>23,359</u> |
| Total assets | | <u>32,835</u> | <u>32,843</u> |
| Capital and reserves | | | |
| Share capital | 25 | <u>2,400</u> | <u>2,400</u> |
| Reserves | 27 | <u>30,435</u> | <u>30,443</u> |
| Equity attributable to the equity holders of the Company | | <u>32,835</u> | <u>32,843</u> |

Chan Tat
Director

Poon Tat Hang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

| | 2007 <i>HK\$'000</i> | 2006 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Opening balance of equity | 35,025 | 51,985 |
| Exchange difference on translation of foreign operations | 2,188 | 1,363 |
| Net income recognized directly in equity | 2,188 | 1,363 |
| Profit/(Loss) for the year attributable to the equity holders of the Company | 13,483 | (18,323) |
| Total recognized income/(expenses) for the year | 15,671 | (16,960) |
| Closing balance of equity | 50,696 | 35,025 |

Consolidated Cash Flow Statement

For the year ended 31 March 2007

| | 2007 HK\$'000 | 2006 HK\$'000 |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Profit/(Loss) before taxation | 13,847 | (18,323) |
| Adjustments for: | | |
| Interest income from bank deposits | (64) | (68) |
| Depreciation | 11,093 | 12,075 |
| Interest expense | 1,901 | 1,739 |
| Fair value losses/(gains) on derivative financial instruments | 131 | (180) |
| Operating cash flows before working capital changes | 26,908 | (4,757) |
| Inventories | (2,885) | (14,327) |
| Trade and other receivables | (10,293) | (13,471) |
| Derivative financial instruments | 49 | – |
| Trade and other payables | 2,854 | 24,144 |
| Net cash generated from/(used in) operating activities | 16,633 | (8,411) |
| Cash flows from investing activities | | |
| Interest received | 64 | 68 |
| Payments to acquire property, plant and equipment | (6,014) | (9,736) |
| Net cash used in investing activities | (5,950) | (9,668) |
| Cash flows from financing activities | | |
| Proceeds from short-term bank borrowings | 91,805 | 29,077 |
| Repayment of short-term bank borrowings | (97,746) | (25,725) |
| Interest paid | (1,901) | (1,739) |
| Net cash (used in)/generated from financing activities | (7,842) | 1,613 |
| Increase/(Decrease) in cash and cash equivalents | 2,841 | (16,466) |
| Cash and cash equivalents at beginning of the year | 4,610 | 19,713 |
| Effect of foreign exchange rate changes | 2,188 | 1,363 |
| Cash and cash equivalents at end of the year | 9,639 | 4,610 |
| Analysis of the balances of cash and cash equivalents | | |
| Bank balances and cash | 9,639 | 4,610 |

Notes to the Financial Statements

For the year ended 31 March 2007

1. GENERAL

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 consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company and its subsidiaries (collectively referred to as the "Group") are 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").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs had no material impact on the results and the financial position of the Group. Accordingly, no prior period adjustment has been required.

Notes to the Financial Statements

For the year ended 31 March 2007

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

| | | <i>Notes</i> |
|--------------------|---|--------------|
| HKAS 1 (Amendment) | Capital Disclosures | 1 |
| HKFRS 7 | Financial Instruments: Disclosures | 1 |
| HKFRS 8 | Operating Segments | 2 |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 | 3 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives | 4 |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment | 5 |
| HK(IFRIC)-Int 11 | HKFRS 2-Group and Treasury Share Transactions | 6 |
| HK(IFRIC)-Int 12 | Service Concession Arrangements | 7 |

Notes:

1. *Effective for annual periods beginning on or after 1 January 2007.*
2. *Effective for annual periods beginning on or after 1 January 2009.*
3. *Effective for annual periods beginning on or after 1 May 2006.*
4. *Effective for annual periods beginning on or after 1 June 2006.*
5. *Effective for annual periods beginning on or after 1 November 2006.*
6. *Effective for annual periods beginning on or after 1 March 2007.*
7. *Effective for annual periods beginning on or after 1 January 2008.*

Notes to the Financial Statements

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. 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 entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognized when goods are delivered and title has passed.

Notes to the Financial Statements

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Sundry income is recognized when received.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent 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 of 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 consolidated income statement in the year in which the item is derecognized.

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.

The Group as lessee

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.

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 the respective 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.

Notes to the Financial Statements

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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 Company'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 Group (i.e. Hong Kong dollars) at the rates 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.

Borrowing costs

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

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 profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes to the Financial Statements

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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 profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

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 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.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the first-in, first-out method.

Notes to the Financial Statements

For the year ended 31 March 2007

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 instrument. 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 one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. 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 as at fair value through profit or loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

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.

Notes to the Financial Statements

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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 asset's 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.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured 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 asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in profit or loss. Any impairment losses on available-for-sale financial assets are recognized in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Notes to the Financial Statements

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets (Continued)

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

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 Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

Notes to the Financial Statements

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at fair value through profit or loss (Continued)

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial liabilities 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.

Other financial liabilities

Other 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.

Consideration paid to reacquire the Company's own equity instruments are deducted from equity. No gain or loss is recognized in profit or loss.

Derivative financial instruments and hedging

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of fixed-rate bank borrowings (fair value hedges) and hedges of highly probable forecast transactions for foreign currency exposure (cash flow hedges), or hedges of net investments in foreign operations.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss.

Notes to the Financial Statements

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Hedge accounting

The Group designates certain derivatives as hedging instruments as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations.

At the inception of the hedging relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognized in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognized immediately in profit or loss.

Notes to the Financial Statements

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Hedge accounting (Continued)

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity in the translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Gains and losses deferred in the translation reserve are recognized in profit or loss on disposal of the foreign operation.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with HKAS 18 *Revenue*.

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 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 receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized 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 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 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions

For share options granted to employees, 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 each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognized in profit or loss with a corresponding adjustment to 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 after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to retained profits.

For share options granted to suppliers in exchange for goods or services, they are measured at the fair value of the goods or services received. The fair values of the goods or services are recognized as expenses immediately, unless the goods or services qualify for recognize as assets. Corresponding adjustments have been made to equity.

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.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are 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.

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.

Notes to the Financial Statements

For the year ended 31 March 2007

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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.

Income taxes

The Group is subject to income taxes in various jurisdictions. Judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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 Group currently does not have a currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group is exposed to both fair value interest rate risk and cash flows interest rate risk through the impact of the floating interest rate borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Credit risk

At 31 March 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial 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 the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Notes to the Financial Statements

For the year ended 31 March 2007

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of borrowings and ensures compliance with loan covenants.

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 | |
|--|----------------|----------|----------------|----------|------------------------------|----------|-------------------------|----------|---------------|----------|----------------|----------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| TURNOVER | 205,340 | 157,838 | 109,246 | 70,243 | 19,943 | 15,990 | 34,065 | 16,320 | 16,799 | 20,485 | 385,393 | 280,876 |
| RESULTS | | | | | | | | | | | | |
| Segment results | 12,607 | (9,770) | 1,782 | (1,632) | 1,355 | (1,005) | 1,124 | (2,134) | 60 | (983) | 16,928 | (15,524) |
| Finance costs | | | | | | | | | | | (3,081) | (2,799) |
| Profit/(Loss) before taxation | | | | | | | | | | | 13,847 | (18,323) |
| Income tax | | | | | | | | | | | (364) | - |
| Profit/(Loss) for the year | | | | | | | | | | | 13,483 | (18,323) |
| ASSETS | | | | | | | | | | | | |
| Segment assets | - | - | - | - | - | - | 127,834 | 115,265 | - | - | 127,834 | 115,265 |
| LIABILITIES | | | | | | | | | | | | |
| Segment liabilities | - | - | - | - | - | - | 77,138 | 80,240 | - | - | 77,138 | 80,240 |
| OTHER INFORMATION | | | | | | | | | | | | |
| Capital expenditure | - | - | - | - | - | - | 6,014 | 9,736 | - | - | 6,014 | 9,736 |
| Depreciation of property, plant and equipment | - | - | - | - | - | - | 11,093 | 12,075 | - | - | 11,093 | 12,075 |

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

Notes to the Financial Statements

For the year ended 31 March 2007

6. TURNOVER AND SEGMENT INFORMATION (Continued)

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.

7. OTHER OPERATING INCOME

| | 2007 HK\$'000 | 2006 HK\$'000 |
|--|------------------|------------------|
| Interest income from bank deposits | 64 | 68 |
| Fair value gains on derivative financial instruments | | |
| – transactions not qualifying as hedges | – | 180 |
| Sundry income | 329 | 1,553 |
| | 393 | 1,801 |

8. OPERATING PROFIT/(LOSS)

| | 2007 HK\$'000 | 2006 HK\$'000 |
|---|------------------|------------------|
| Operating profit/(loss) has been arrived at after charging: | | |
| Staff costs | | |
| – Directors' emoluments (Note 10) | 3,288 | 3,814 |
| – Staff salaries and wages | 32,176 | 31,968 |
| – Staff retirement benefits schemes contributions | 344 | 462 |
| | 35,808 | 36,244 |
| Depreciation of owned property, plant and equipment | 11,093 | 12,075 |
| Operating lease rentals in respect of land and buildings | 3,695 | 3,560 |
| Auditors' remuneration | 310 | 310 |
| Cost of inventories expensed | 340,282 | 266,494 |
| Fair value losses on derivative financial instruments | | |
| – transactions not qualifying as hedges | 131 | – |
| Net foreign exchange losses | 463 | 203 |

Notes to the Financial Statements

For the year ended 31 March 2007

9. FINANCE COSTS

| | 2007 HK\$'000 | 2006 HK\$'000 |
|--|------------------|------------------|
| Bank charges | 1,180 | 1,060 |
| Interest on short-term bank borrowings and bank overdrafts – wholly repayable within five years | 1,901 | 1,739 |
| | <u>3,081</u> | <u>2,799</u> |

10. DIRECTORS' EMOLUMENTS

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

For the year ended 31 March 2007

| | 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 | – | 648 | 12 | 660 |
| Mr. Chan Man Kei (Appointed on 1 November 2006) | – | 50 | 3 | 53 |
| Non-executive director | | | | |
| Madam Hong Jing Yu | 120 | – | – | 120 |
| Independent non-executive directors | | | | |
| Mr. Hong Yee Kwong, Paul | 80 | – | – | 80 |
| Mr. Lam King Pui | 80 | – | – | 80 |
| Mr. Wu Tai Cheung | 80 | – | – | 80 |
| Total | <u>360</u> | <u>2,901</u> | <u>27</u> | <u>3,288</u> |

Notes to the Financial Statements

For the year ended 31 March 2007

10. DIRECTORS' EMOLUMENTS (Continued)

For the year ended 31 March 2006

| | 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 | – | 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 | <u>450</u> | <u>3,332</u> | <u>32</u> | <u>3,814</u> |

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

Notes to the Financial Statements

For the year ended 31 March 2007

11. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals of the Group for the year ended 31 March 2007 included three directors (2006: three directors) of the Company, whose emoluments have been disclosed above. Details of the remuneration of the remaining two (2006: two) highest paid, non-director employees of the Group are set out below:

| | 2007 HK\$'000 | 2006 HK\$'000 |
|---|------------------|------------------|
| Salaries and allowances | 1,305 | 1,083 |
| Retirement benefits schemes contributions | 24 | 24 |
| | <u>1,329</u> | <u>1,107</u> |

The emoluments of each of the remaining two (2006: two) 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

| | 2007 HK\$'000 | 2006 HK\$'000 |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 5,219 | 6,219 |
| Post employment benefits | 86 | 109 |
| | <u>5,305</u> | <u>6,328</u> |

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. Both the Group and the employees are required to contribute 5% of the employees' relevant income, which is subject to a cap of HK\$20,000. 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\$293,000 (2006: HK\$359,000). At 31 March 2007, there were no forfeited contributions available for the Group to offset contributions payable in future years (2006: 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 10% 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 contributions used to reduce future contributions at 31 March 2007 (2006: Nil).

Notes to the Financial Statements

For the year ended 31 March 2007

13. INCOME TAX

Hong Kong profits tax is calculated at a rate of 17.5% (2006: 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 have estimated taxation losses to offset estimated assessable profits arising in Hong Kong for the year (2006: Nil).

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. No provision for PRC enterprise income tax has been made as the subsidiary operating in the PRC incurred a taxation loss for the year (2006: Nil).

| | 2007 HK\$'000 | 2006 HK\$'000 |
|--|------------------|------------------|
| Current tax | | |
| Under provision in prior years – Hong Kong | 379 | – |
| Deferred tax (Note 24) | (15) | – |
| | <u>364</u> | <u>–</u> |

The taxation charge for the year can be reconciled to the profit/(loss) before taxation per the consolidated income statement as follows:

| | 2007 HK\$'000 | 2006 HK\$'000 |
|---|------------------|------------------|
| Profit/(Loss) before taxation | <u>13,847</u> | <u>(18,323)</u> |
| Tax at application income tax rate of 17.5% (2006: 17.5%) | 2,423 | (3,207) |
| Tax effect of expenses not deductible for tax purpose | 645 | – |
| Tax effect of income not taxable for tax purpose | (302) | (951) |
| Tax effect of estimated tax losses not recognized | – | 4,158 |
| Utilization of estimated tax losses previously not recognized | (5,865) | – |
| Others | <u>3,463</u> | <u>–</u> |
| Tax charge for the year | <u>364</u> | <u>–</u> |

14. PROFIT/(LOSS) ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit/(loss) attributable to the equity holders of the Company includes a loss of approximately HK\$8,000 (2006: HK\$20,003,000) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

For the year ended 31 March 2007

15. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share attributable to the equity holders of the Company is based on the profit for the year attributable to the equity holders of the Company of approximately HK\$13,483,000 (2006: loss for the year of approximately HK\$18,323,000) and on the weighted average of 240,000,000 ordinary shares (2006: 240,000,000) in issue during the year.

The diluted earnings/(loss) per share for the years ended 31 March 2006 and 2007 have not been disclosed as the exercise of the Company's outstanding share options will have an anti-dilutive effect on the basic earnings/(loss) per share.

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 | | | | | | | |
| At 1 April 2005 | 53,379 | 49,532 | 918 | 2,324 | 2,933 | 2,448 | 111,534 |
| Additions | 1,416 | 8,204 | – | – | – | 116 | 9,736 |
| At 31 March 2006 and 1 April 2006 | 54,795 | 57,736 | 918 | 2,324 | 2,933 | 2,564 | 121,270 |
| Additions | 591 | 5,239 | – | 179 | – | 5 | 6,014 |
| At 31 March 2007 | 55,386 | 62,975 | 918 | 2,503 | 2,933 | 2,569 | 127,284 |
| Accumulated depreciation | | | | | | | |
| At 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 |
| At 31 March 2006 and 1 April 2006 | 34,028 | 48,059 | 903 | 2,142 | 2,702 | 2,338 | 90,172 |
| Charge for the year | 3,471 | 7,164 | 8 | 227 | 115 | 108 | 11,093 |
| At 31 March 2007 | 37,499 | 55,223 | 911 | 2,369 | 2,817 | 2,446 | 101,265 |
| Net book value | | | | | | | |
| At 31 March 2007 | 17,887 | 7,752 | 7 | 134 | 116 | 123 | 26,019 |
| At 31 March 2006 | 20,767 | 9,677 | 15 | 182 | 231 | 226 | 31,098 |

Notes to the Financial Statements

For the year ended 31 March 2007

17. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

Company

| | 2007 HK\$'000 | 2006 HK\$'000 |
|---------------------------------|------------------|------------------|
| Unlisted shares at cost | 65,484 | 65,484 |
| Provision for impairment losses | (56,000) | (56,000) |
| | 9,484 | 9,484 |

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

Particulars of the Company's subsidiaries at 31 March 2007 were 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\$9,000,000 | 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 2005 and 2006 were not audited by HLB Hodgson Impey Cheng.

Notes to the Financial Statements

For the year ended 31 March 2007

18. INVENTORIES

| | Group | | Company | |
|------------------|------------------|------------------|------------------|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 |
| Raw materials | 34,524 | 33,300 | – | – |
| Work-in-progress | 11,146 | 9,644 | – | – |
| Finished goods | 9,290 | 9,131 | – | – |
| | 54,960 | 52,075 | – | – |

19. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 |
| Trade receivables, with aged analysis (based on payment due date) (Note (i)): | | | | |
| 0-30 days | 22,038 | 16,801 | – | – |
| 31-60 days | 4,508 | 73 | – | – |
| 61-180 days | 289 | 264 | – | – |
| Trade receivables | 26,835 | 17,138 | – | – |
| Bills receivable (Note (ii)) | 815 | 764 | – | – |
| Deposits paid | 3,454 | 3,248 | – | – |
| Sundry debtors and prepayments | 6,112 | 5,773 | – | – |
| | 37,216 | 26,923 | – | – |

Notes:

- (i) Trade debts which were settled by letters of credit were 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 provided a credit period normally ranging from 14 to 60 days to its customers.
- (ii) Bills receivable were 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 2007

20. DERIVATIVE FINANCIAL INSTRUMENTS

Group

| | 2007 | | 2006 | |
|----------------------------|--------------------|-------------------------|--------------------|-------------------------|
| | Assets HK\$'000 | Liabilities HK\$'000 | Assets HK\$'000 | Liabilities HK\$'000 |
| Forward currency contracts | – | – | 180 | – |

Notes:

- (i) For the year ended 31 March 2006, the Group 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.
- (ii) The directors consider that the carrying amounts of derivative financial instruments approximate their fair values.

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21. BANK BALANCES AND CASH

At 31 March 2007, the bank balances and cash denominated in Renminbi amounted to approximately HK\$1,638,000 (2006: Nil) which remained not freely convertible into foreign currencies.

22. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 |
| Trade payables, with aged analysis (based on payment due date): | | | | |
| 0-30 days | 48,238 | 42,362 | – | – |
| 31-60 days | 43 | 3,316 | – | – |
| 61-180 days | 308 | 1,579 | – | – |
| Trade payables | 48,589 | 47,257 | – | – |
| Bills payable | 682 | 619 | – | – |
| Trade deposits received | 3,377 | 2,528 | – | – |
| Other payables and accruals | 4,616 | 4,006 | – | – |
| | 57,264 | 54,410 | – | – |

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 2007

23. SHORT-TERM BANK BORROWINGS

The short-term bank borrowings were secured by debentures on all assets of the Company and its wholly-owned subsidiaries, BEPCL and BEP(HK), pledge of shares of BEP(China), and corporate guarantees given by the Company and BEPCL, bore interest at 1.25% per annum above London Interbank Offered Rate/Hong Kong Interbank Offered Rate and were repayable within three months of the balance sheet date. Except for bank borrowings of approximately HK\$3,737,000 (2006: Nil) which are denominated in United States dollars, all bank borrowings are in Hong Kong dollars.

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 and the movements during the year were as follows:

Group

| | Depreciation allowances in excess of related depreciation | |
|--|---|------------|
| | HK\$'000 | HK\$'000 |
| At 1 April 2006/2005 | 461 | 461 |
| Credited to consolidated income statement for the year | (15) | – |
| At 31 March 2007/2006 | <u>446</u> | <u>461</u> |

A deferred tax asset has not been recognized in the financial statements in respect of estimated tax losses available to offset future profits due to the uncertainty of future profit streams against which the asset can be utilized. The tax losses arising from subsidiaries operating in Hong Kong are subject to approval by the Inland Revenue Department of Hong Kong. At 31 March 2007, the unprovided deferred tax asset of the Group was as follows:

| | 2007 | 2006 |
|---|--------------|---------------|
| | HK\$'000 | HK\$'000 |
| Tax effect of temporary difference attributable to unutilized tax losses | <u>9,010</u> | <u>14,878</u> |

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

Notes to the Financial Statements

For the year ended 31 March 2007

25. SHARE CAPITAL

| | 2007 HK\$'000 | 2006 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> |

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 be 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.

At 31 March 2007, the outstanding number of shares in respect of which share options had been granted under the Scheme was 2,600,000 (2006: 2,600,000), representing approximately 1.08% (2006: 1.08%) 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 2007

26. SHARE OPTION SCHEME (Continued)

The following table discloses movements in the Company's share options under the Scheme during the years ended 31 March 2007 and 2006:

Year ended 31 March 2007

| Name of directors/ employees | Date of grant | Exercisable period | Exercise price per share | Number of share options outstanding and exercisable at 1 April 2006 and 31 March 2007 |
|---------------------------------|----------------|-----------------------------------|--------------------------------|---|
| Mr. Chan Tat | 13 August 2003 | 13 August 2003 to 2 March 2013 | HK\$0.69 | 1,000,000 |
| Mr. Lee Kam Hung | 13 August 2003 | 18 August 2003 to 2 March 2013 | HK\$0.69 | 500,000 |
| Directors | | | | 1,500,000 |
| Employees | 13 August 2003 | 18 August 2003 to 2 March 2013 | HK\$0.69 | 1,100,000 |
| Grand total | | | | 2,600,000 |

Notes to the Financial Statements

For the year ended 31 March 2007

26. SHARE OPTION SCHEME (Continued)

Year ended 31 March 2006

| Name of directors/ employees | Date of grant | Exercisable period | Exercise price per share | Number of share options | | |
|----------------------------------|----------------|-----------------------------------|--------------------------------|--|------------------------------|---|
| | | | | Outstanding and exercisable at 1 April 2005 | Lapsed during the year | Outstanding and exercisable 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 | | | | <u>3,550,000</u> | <u>(950,000)</u> | <u>2,600,000</u> |

The share options were vested immediately from the date of grant. No share options were granted, lapsed, exercised or expired during the year ended 31 March 2007.

Notes to the Financial Statements

For the year ended 31 March 2007

27. RESERVES

Group

| | Share premium <i>HK\$'000</i> | Merger reserve <i>HK\$'000</i> <i>(Note(i))</i> | Translation reserve <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|--|---|--|--------------------------|
| At 1 April 2005 | 22,524 | (1,522) | – | 28,583 | 49,585 |
| Exchange difference on translation of foreign operations | – | – | 1,363 | – | 1,363 |
| Loss for the year | – | – | – | (18,323) | (18,323) |
| At 31 March 2006 and 1 April 2006 | 22,524 | (1,522) | 1,363 | 10,260 | 32,625 |
| Exchange difference on translation of foreign operations | – | – | 2,188 | – | 2,188 |
| Profit for the year | – | – | – | 13,483 | 13,483 |
| At 31 March 2007 | 22,524 | (1,522) | 3,551 | 23,743 | 48,296 |

Notes to the Financial Statements

For the year ended 31 March 2007

27. RESERVES (Continued)

Company

| | Share premium <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> <i>(Note(ii))</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--------------------------------------|-------------------------------------|--|--|--------------------------|
| At 1 April 2005 | 22,524 | 63,884 | (35,962) | 50,446 |
| Loss for the year | – | – | (20,003) | (20,003) |
| At 31 March 2006 and 1 April 2006 | 22,524 | 63,884 | (55,965) | 30,443 |
| Loss for the year | – | – | (8) | (8) |
| At 31 March 2007 | 22,524 | 63,884 | (55,973) | 30,435 |

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.

28. CONTINGENT LIABILITIES

At 31 March 2007, the Group had contingent liabilities arising from export bills discounted with recourse amounting to approximately HK\$5,927,000 (2006: HK\$14,598,000)

Save for a debenture on all assets of the Company and a corporate guarantee given by the Company to a bank to secure the general banking facilities granted to BEP(HK), the Company had no significant contingent liabilities at 31 March 2007 (2006: Nil). In the opinion of the directors, no material liabilities will arise from the above corporate guarantee which arose in the ordinary course of the business and the fair value of the guarantee granted by the Company is immaterial.

Notes to the Financial Statements

For the year ended 31 March 2007

29. CAPITAL COMMITMENTS

At 31 March 2007, the Group had the following capital commitments which have not been provided for in the financial statements:

| | 2007 HK\$'000 | 2006 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Authorized and contracted for in respect of | | |
| – Acquisition of the plant and machinery | <u>–</u> | <u>150</u> |

At 31 March 2006 and 2007, the Company had no significant capital commitments.

30. OPERATING LEASE COMMITMENTS

At 31 March 2007, the Group had commitments for future minimum lease payments under non-cancelable operating leases in respect of rented premises which would fall due as follows:

| | 2007 HK\$'000 | 2006 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Within one year | 2,380 | 3,335 |
| In the second to fifth years inclusive | <u>315</u> | <u>1,762</u> |
| | <u>2,695</u> | <u>5,097</u> |

The Company had no significant operating lease commitments at 31 March 2006 and 2007.

Notes to the Financial Statements

For the year ended 31 March 2007

31. RELATED PARTY TRANSACTIONS

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

| | 2007 <i>HK\$'000</i> | 2006 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Rental paid to Super Light Manufacturing Products (Shenzhen) Company Limited ("SLMP") (Note (i)) | 3,155 | 3,020 |
| Rental paid to Manwise Investment Company Limited ("Manwise") (Note (ii)) | <u>540</u> | <u>540</u> |

Note:

- (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 2007 amounted to approximately HK\$3,155,000 and the rentals for the remaining term of the tenancy agreement amounts to approximately HK\$1,840,000. 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 Group had renewed the aforesaid agreement in October 2006. Pursuant to a tenancy agreement dated 24 October 2006, Manwise leased to BEP(HK) the Premises for a term of two years commencing from 1 November 2006 and expiring on 31 October 2008 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 2007 amounted to HK\$540,000 and the rentals for the remaining term of the tenancy amounts to HK\$855,000. The directors consider that such rentals were calculated by reference to open market rentals.

Summary Financial Information

The following is a summary of the results, assets and liabilities of the Group for the five years ended 31 March 2007 prepared on the basis as set out in the note below:

RESULTS

| | Year ended 31 March | | | | |
|---|---------------------|----------|----------|----------|----------|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | 385,393 | 280,876 | 204,472 | 209,429 | 288,455 |
| Profit/(loss) before taxation | 13,847 | (18,323) | (26,507) | (11,257) | 30,595 |
| Income tax | (364) | – | (462) | 617 | (3,120) |
| Net profit/(loss) attributable to equity holders of the Company | 13,483 | (18,323) | (26,969) | (10,640) | 27,475 |

ASSETS AND LIABILITIES

| | As at 31 March | | | | |
|-------------------------|----------------|----------|----------|----------|----------|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Non-current assets | 26,019 | 31,098 | 33,437 | 31,224 | 28,449 |
| Current assets | 101,815 | 84,167 | 71,292 | 83,784 | 90,961 |
| Current liabilities | 76,692 | 79,779 | 52,283 | 35,593 | 23,938 |
| Non-current liabilities | 446 | 461 | 461 | 461 | 1,078 |
| Net assets | 50,696 | 35,025 | 51,985 | 78,954 | 94,394 |

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 the year ended 31 March 2003, and of the assets and liabilities of the Group as at 31 March 2003, have been prepared as if the current structure of the Group had been in existence throughout the year ended 31 March 2003. The financial summaries of the results of the Group for the four years ended 31 March 2004, 2005, 2006 and 2007 and of its assets and liabilities as at those dates have been extracted from the Group's published annual reports.