

BEP



BEP INTERNATIONAL HOLDINGS LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

interim report **2005**

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BEP INTERNATIONAL HOLDINGS LIMITED

The board of directors (the “Board”) of BEP International Holdings Limited (the “Company”) presents herewith the interim report and condensed financial statements of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 September 2004. The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 September 2004, and the consolidated balance sheet as at 30 September 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 2 to 14 of this report.

CONDENSED CONSOLIDATED INCOME STATEMENT

| | Notes | For the six months ended 30 September | |
|---|-------|--|---------------------------------|
| | | 2004 (unaudited) HK\$'000 | 2003 (unaudited) HK\$'000 |
| Turnover | 2 | 107,382 | 113,935 |
| Cost of sales | | (101,809) | (101,279) |
| Gross profit | | 5,573 | 12,656 |
| Other revenues | 2 | 127 | 401 |
| Selling and distribution costs | | (3,527) | (3,703) |
| Administrative expenses | | (10,577) | (11,493) |
| Loss from operations | 3 | (8,404) | (2,139) |
| Finance costs | 4 | (518) | (427) |
| Loss before taxation | | (8,922) | (2,566) |
| Income tax | 5 | 11 | (128) |
| Net loss from ordinary activities attributable to shareholders | 14 | (8,911) | (2,694) |
| Loss per share | | | |
| - Basic | 7 | (3.71 cents) | (1.12 cents) |
| - Diluted | 7 | N/A | N/A |

CONDENSED CONSOLIDATED BALANCE SHEET

| | <i>Notes</i> | As at 30 September 2004 (unaudited) HK\$'000 | As at 31 March 2004 (audited) HK\$'000 |
|--|--------------|---|--|
| Non-current assets | | | |
| Tangible fixed assets | 8 | <u>31,582</u> | <u>31,224</u> |
| Current assets | | | |
| Inventories | | 37,081 | 27,275 |
| Trade and other receivables | 9 | 15,874 | 14,422 |
| Tax recoverable | | 379 | 379 |
| Cash and bank balances | | <u>20,297</u> | <u>41,708</u> |
| | | 73,631 | 83,784 |
| Less: Current liabilities | | | |
| Short-term bank loan | 10 | - | 15,000 |
| Trade and other payables | 11 | <u>34,720</u> | <u>20,593</u> |
| | | 34,720 | 35,593 |
| Net current assets | | <u>38,911</u> | <u>48,191</u> |
| Total assets less current liabilities | | <u>70,493</u> | <u>79,415</u> |
| Less: Non-current liabilities | | | |
| Deferred tax liabilities | 12 | <u>450</u> | <u>461</u> |
| Net assets | | <u>70,043</u> | <u>78,954</u> |
| <i>Represented by:</i> | | | |
| Share capital | 13 | 2,400 | 2,400 |
| Reserves | 14 | <u>67,643</u> | <u>76,554</u> |
| Shareholders' funds | | <u>70,043</u> | <u>78,954</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | For the six months ended 30 September | |
|---|--|---------------------------------|
| | 2004 (unaudited) HK\$'000 | 2003 (unaudited) HK\$'000 |
| Shareholders' equity as at 1 April 2004/2003 | 78,954 | 94,394 |
| Net loss for the period | (8,911) | (2,694) |
| Dividends paid | - | (4,800) |
| Shareholders' equity as at 30 September 2004/2003 | <u>70,043</u> | <u>86,900</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | For the six months ended 30 September | |
|--|--|---------------------------------|
| | 2004 (unaudited) HK\$'000 | 2003 (unaudited) HK\$'000 |
| Net cash (used in)/generated from operating activities | (828) | 5,414 |
| Net cash used in investing activities | (5,419) | (4,542) |
| Net cash used in financing activities | <u>(15,164)</u> | <u>(4,898)</u> |
| Decrease in cash and cash equivalents | (21,411) | (4,026) |
| Cash and cash equivalents brought forward | <u>41,708</u> | <u>38,780</u> |
| Cash and cash equivalents carried forward | <u>20,297</u> | <u>34,754</u> |
| Analysis of the balances of cash and cash equivalents | | |
| Cash and bank balances | <u>20,297</u> | <u>34,754</u> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These unaudited condensed financial statements should be read in conjunction with the 2004 annual report.

The basis of preparation and accounting policies adopted in the preparation of these unaudited condensed financial statements are consistent with those used in the audited financial statements for the year ended 31 March 2004.

2. TURNOVER AND REVENUES

The Group is principally engaged in the design, manufacture and sale of home electrical appliances with production facilities based in the People's Republic of China (the "PRC"). All of the Group's operations are classed as continuing. Turnover represents sale of products at invoiced value, net of discounts and returns. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and revenues is as follows:

| | For the six months ended 30 September | |
|----------------------|--|---------------------------------|
| | 2004 (unaudited) HK\$'000 | 2003 (unaudited) HK\$'000 |
| Turnover | | |
| Sale of products | 107,382 | 113,935 |
| Other revenues | | |
| Bank interest income | 17 | 220 |
| Sundry income | 110 | 181 |
| | 127 | 401 |
| Total revenues | 107,509 | 114,336 |

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2. TURNOVER AND REVENUES (CONTINUED)

An analysis of the Group's turnover and loss from operations by products and by geographical area of principal markets of the Group is as follows:

| | For the six months ended 30 September | |
|---|--|-------------|
| | 2004 | 2003 |
| | (unaudited) | (unaudited) |
| | HK\$'000 | HK\$'000 |
| Turnover by products: | | |
| Kettles | 47,012 | 58,212 |
| Irons | 39,703 | 36,909 |
| Coffee related accessory products | 11,970 | 11,248 |
| Heaters | 7,009 | 5,467 |
| Others | 1,688 | 2,099 |
| | <hr/> | <hr/> |
| Total turnover | 107,382 | 113,935 |
| | <hr/> | <hr/> |
| Contribution to trading results by products: | | |
| Kettles | (3,946) | (821) |
| Irons | (3,267) | (955) |
| Coffee related accessory products | (32) | (28) |
| Heaters | (1,004) | (329) |
| Others | (155) | (6) |
| | <hr/> | <hr/> |
| Loss from operations | (8,404) | (2,139) |
| | <hr/> | <hr/> |
| Turnover by geographical area of principal markets determined on the basis of destination of delivery of products: | | |
| Europe | 63,283 | 60,394 |
| North America | 24,063 | 33,000 |
| Australia and New Zealand | 9,555 | 10,668 |
| Asia and Middle East | 4,026 | 3,222 |
| Others | 6,455 | 6,651 |
| | <hr/> | <hr/> |
| Total turnover | 107,382 | 113,935 |
| | <hr/> | <hr/> |
| Contribution to trading results by geographical area of principal markets: | | |
| Europe | (5,951) | (1,322) |
| North America | 204 | (487) |
| Australia and New Zealand | (1,026) | (150) |
| Asia and Middle East | (912) | (61) |
| Others | (719) | (119) |
| | <hr/> | <hr/> |
| Loss from operations | (8,404) | (2,139) |
| | <hr/> | <hr/> |

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3. LOSS FROM OPERATIONS

| | For the six months ended 30 September | |
|--|--|----------------|
| | 2004 | 2003 |
| | (unaudited) | (unaudited) |
| | HK\$'000 | HK\$'000 |
| Loss from operations is stated after charging: | | |
| Staff costs | 13,948 | 14,189 |
| Depreciation of owned tangible fixed assets | 5,078 | 4,482 |
| Operating lease rentals in respect of land and buildings | 1,741 | 1,830 |
| Cost of inventories expensed | 101,809 | 101,279 |
| | <u>101,809</u> | <u>101,279</u> |

4. FINANCE COSTS

| | For the six months ended 30 September | |
|---------------------------------------|--|-------------|
| | 2004 | 2003 |
| | (unaudited) | (unaudited) |
| | HK\$'000 | HK\$'000 |
| Bank charges | 354 | 329 |
| Interest on bank loans and overdrafts | | |
| – wholly repayable within five years | 164 | 98 |
| | <u>518</u> | <u>427</u> |

5. INCOME TAX

Hong Kong profits tax is calculated at a rate of 17.5% (For the six months ended 30 September 2003: 17.5%) on the estimated assessable profit arising in Hong Kong for the period. No provision for Hong Kong profits tax has been made in the financial statements for the six months ended 30 September 2003 and 2004 as the Group has no assessable profit for both periods.

No provision for overseas taxation has been made in the financial statements. Bailingda Industrial (Shenzhen) Co., Limited ("BEP(China)"), the Group's wholly-owned subsidiary established in the PRC, is entitled to exemption from PRC foreign enterprise income tax for the first two profitable years commencing from the year ended 31 March 2003 and a 50% reduction from normal PRC foreign enterprise income tax (effectively 7.5%) for the three years immediately following (For the six months ended 30 September 2003: Nil).

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5. INCOME TAX (CONTINUED)

| | For the six months ended 30 September | |
|--|--|---------------------------------|
| | 2004 (unaudited) HK\$'000 | 2003 (unaudited) HK\$'000 |
| Current tax | | |
| Provision for Hong Kong profits tax for the period | - | - |
| Deferred tax (Note 12) | | |
| Origination and reversal of temporary differences | (11) | 128 |
| | <u>(11)</u> | <u>128</u> |

6. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2004 (For the six months ended 30 September 2003: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 September 2004 is based on the Group's net loss from ordinary activities attributable to shareholders of approximately HK\$8,911,000 (For the six months ended 30 September 2003: HK\$2,694,000) and 240,000,000 (For the six months ended 30 September 2003: 240,000,000) ordinary shares in issue during the period.

The diluted loss per share for the six months ended 30 September 2003 and 2004 has not been disclosed as the exercise of the Company's outstanding options will have an anti-dilutive effect on the basic loss per share.

8. CAPITAL EXPENDITURE

| | Tangible fixed assets (unaudited) HK\$'000 |
|--|---|
| Net book value as at 1 April 2004 | 31,224 |
| Additions for the period | 5,436 |
| Depreciation charge | (5,078) |
| | <u>31,582</u> |
| Net book value as at 30 September 2004 | <u>31,582</u> |

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9. TRADE AND OTHER RECEIVABLES

| | 30 September 2004 (unaudited) HK\$'000 | 31 March 2004 (audited) HK\$'000 |
|--------------------------------|---|---|
| Trade debtors | 7,999 | 6,358 |
| Bills receivable | 386 | 301 |
| Deposits paid | 1,965 | 1,814 |
| Sundry debtors and prepayments | 5,524 | 5,949 |
| | 15,874 | 14,422 |

The ageing analysis of trade debtors is as follows:

| | | |
|---------------|--------------|-------|
| 0 – 30 days | 7,901 | 6,298 |
| 31 – 60 days | 30 | – |
| 61 – 180 days | 68 | 60 |
| | 7,999 | 6,358 |

In general, the Group's credit policy is as follows:

- (i) Trade debts which are settled by letters of credit are due at sight or in accordance with the respective terms of the letters of credit normally ranging from 30 to 120 days. For other trade debts, the Group provides a credit period normally ranging from 7 to 33 days to its customers.
- (ii) Bills receivable are due at sight or in accordance with the respective terms of the bills normally ranging from 30 to 120 days.

10. BANKING FACILITIES

As at 30 September 2004, the Group's general banking facilities are secured by corporate guarantees given by the Company and its direct wholly-owned subsidiary, Better Electrical Products Company Limited.

The short-term bank loan as at 31 March 2004 was secured by the aforesaid corporate guarantees, bore interest at approximately 1.3% per annum and was fully repaid on 3 May 2004.

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11. TRADE AND OTHER PAYABLES

| | 30 September 2004 (unaudited) HK\$'000 | 31 March 2004 (audited) HK\$'000 |
|-------------------------------|---|---|
| Trade creditors | 29,893 | 16,097 |
| Trade deposits received | 680 | 291 |
| Sundry creditors and accruals | 4,147 | 4,205 |
| | <u>34,720</u> | <u>20,593</u> |

The ageing analysis of trade creditors is as follows:

| | | |
|---------------|----------------------|---------------|
| 0 – 30 days | 29,012 | 15,690 |
| 31 – 60 days | 701 | 351 |
| 61 – 180 days | 180 | 56 |
| | <u>29,893</u> | <u>16,097</u> |

12. DEFERRED TAX

| | For the six months ended 30 September 2004 (unaudited) HK\$'000 | For the year ended 31 March 2004 (audited) HK\$'000 |
|--|--|--|
| As at 1 April 2004/2003 | 461 | 1,078 |
| Credited to income statement | (11) | (718) |
| Effect of change in tax rate charged to income statement | - | 101 |
| | <u>450</u> | <u>461</u> |

13. SHARE CAPITAL

| | 30 September 2004 (unaudited) HK\$'000 | 31 March 2004 (audited) HK\$'000 |
|---|---|---|
| <i>Authorised:</i> | | |
| 10,000,000,000 ordinary shares of HK\$0.01 each | <u>100,000</u> | <u>100,000</u> |
| <i>Issued and fully paid:</i> | | |
| 240,000,000 ordinary shares of HK\$0.01 each | <u>2,400</u> | <u>2,400</u> |

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14. RESERVES

| | Share premium <i>HK\$'000</i> | Merger reserve <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--------------------------------|---|--|--|---------------------------------|
| As at 1 April 2003 | 22,524 | (1,522) | 70,992 | 91,994 |
| Net loss for the period | – | – | (2,694) | (2,694) |
| 2003 final dividend paid | – | – | (4,800) | (4,800) |
| As at 30 September 2003 | 22,524 | (1,522) | 63,498 | 84,500 |
| Net loss for the period | – | – | (7,946) | (7,946) |
| As at 31 March 2004 | 22,524 | (1,522) | 55,552 | 76,554 |
| Net loss for the period | – | – | (8,911) | (8,911) |
| As at 30 September 2004 | <u>22,524</u> | <u>(1,522)</u> | <u>46,641</u> | <u>67,643</u> |

15. SHARE OPTION SCHEME

Share options are granted to directors and employees of the Company under the share option scheme approved by shareholders of the Company on 6 January 2003. There were no changes in any terms of the scheme during the six months ended 30 September 2004. The detailed terms of the scheme were disclosed in the audited financial statements for the year ended 31 March 2004.

Details of the share options outstanding as at 30 September 2004 are as follows:

| Name of directors/ employees | Date of grant | Exercisable period | Exercise price per share | Number of share options outstanding as at 1 April 2004 and 30 September 2004 |
|---|----------------------|-----------------------------------|-------------------------------------|---|
| 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 |
| Mr. Sin Cheuk Lok, Christopus | 13 August 2003 | 18 August 2003 to 2 March 2013 | HK\$0.69 | 500,000 |
| Total directors | | | | 2,000,000 |
| Employees | 13 August 2003 | 18 August 2003 to 2 March 2013 | HK\$0.69 | 1,550,000 |
| Grand total | | | | <u>3,550,000</u> |

The share options vested immediately from the date of grant. No share options were granted, exercised, cancelled or lapsed during the six months ended 30 September 2004.

16. RELATED PARTY TRANSACTIONS

Apart from those disclosed elsewhere in these financial statements, in the opinion of the Board, the following is a summary of the significant related party transactions which were carried out by the Group in the normal course of its business and on normal commercial terms during the period:

| | | For the six months ended 30 September | |
|---|--------------|--|-----------------|
| | | 2004 | 2003 |
| | | (unaudited) | (unaudited) |
| | <i>Notes</i> | HK\$'000 | <i>HK\$'000</i> |
| Rental paid to Super Light Manufacturing Products (Shenzhen) Company Limited ("SLMP") | (a) | (1,471) | (1,560) |
| Rental paid to Manwise Investment Company Limited ("Manwise") | (b) | (270) | (270) |

Notes:

- (a) Pursuant to a tenancy agreement dated 30 October 2000, 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 Better Electrical Products (HK) Company Limited ("BEP(HK)") 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 2000 and expiring on 31 October 2003 at a monthly rent of HK\$260,000, exclusive of management fee and utility charges.

The Group had renewed the aforesaid agreement in November 2003. Pursuant to a tenancy agreement dated 7 November 2003, SLMP leased to BEP(China) the Industrial Complex for a term of one year commencing from 1 November 2003 and expiring on 31 October 2004 at a monthly rent of RMB260,000, exclusive of management fee and utility charges. The rental in respect of the Industrial Complex for the six months ended 30 September 2004 amounted to approximately HK\$1,471,000 and the rental for the remaining term of the tenancy agreement amounts to approximately HK\$245,000. The Board considers that such rentals were calculated by reference to open market rentals.

The Group subsequently renewed the aforesaid agreement in October 2004. Pursuant to a tenancy agreement dated 14 October 2004, SLMP leased to BEP(China) the Industrial Complex for a term of three years commencing on 1 November 2004 and expiring on 31 October 2007 at a monthly rental of RMB260,000, exclusive of management fee and utility charges.

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16. RELATED PARTY TRANSACTIONS (CONTINUED)

- (b) Pursuant to a tenancy agreement dated 19 October 2000, 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, Fotan Industrial Centre, 26-28 Au Pui Wan Street, Fotan, Shatin, New Territories, Hong Kong (the "Premises") for a term of three years commencing from 1 November 2000 and expiring on 31 October 2003 at a monthly rent of HK\$45,000, inclusive of rates and management fee.

The Group had renewed the aforesaid agreement in October 2003. Pursuant to a tenancy agreement dated 30 October 2003, Manwise leased to BEP(HK) 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 rental in respect of the Premises for the six months ended 30 September 2004 amounted to approximately HK\$270,000 and the rental for the remaining term of the tenancy agreement amounts to approximately HK\$1,125,000. The Board considers that such rentals were calculated by reference to open market rentals.

17. CONTINGENT LIABILITIES

| | 30 September 2004 (unaudited) HK\$'000 | 31 March 2004 (audited) HK\$'000 |
|---------------------------------------|---|---|
| Export bills discounted with recourse | 14,171 | 9,730 |

Save as a corporate guarantee given by the Company to a bank to secure the general banking facilities granted to BEP(HK), a wholly-owned subsidiary of the Company, the Company has no significant contingent liabilities as at 31 March 2004 and 30 September 2004.

18. COMMITMENTS**(i) Capital commitments**

Capital commitments outstanding as at 30 September 2004 not provided for in the financial statements are as follows:

| | 30 September 2004 (unaudited) HK\$'000 | 31 March 2004 (audited) HK\$'000 |
|--|---|---|
| Authorised and contracted for in respect of acquisition of plant and machinery | - | 766 |

18. COMMITMENTS (CONTINUED)**(ii) Operating lease commitments**

As at 30 September 2004, the total future minimum lease payments under non-cancellable operating leases in respect of rented premises are payable as follows:

| | 30 September 2004 (unaudited) HK\$'000 | 31 March 2004 (audited) HK\$'000 |
|---------------------------|---|---|
| Within one year | 785 | 2,253 |
| Between two to five years | 585 | 855 |
| | <u>1,370</u> | <u>3,108</u> |

The Company did not have any significant commitments as at 30 September 2004 (31 March 2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS**Review of operations**

For the six months ended 30 September 2004 (the "Period"), the Group recorded a turnover of approximately HK\$107,382,000 (2003: HK\$113,935,000), representing a decrease of approximately 5.8% as compared to the corresponding period in 2003. Net loss from ordinary activities attributable to shareholders for the Period was approximately HK\$8,911,000 (2003: HK\$2,694,000). Our overall profit margin was squeezed in the Period by the sharp rise of the raw material costs, including plastics (prompted by the rise of oil price), steel, copper and aluminum. In view of severe competition, it was difficult to shift the additional cost to the customers.

Prospects

In order to counter rising raw material costs, we will continue to develop new products that command higher profit margin. For example, we have developed irons with electronic temperature controls, which have received favourable response from our customers. We are developing kettles with filtering function which will be launched in 2005. A number of new coffee related accessory products will also be launched in 2005, and therefore the sales from this product category is expected to increase. Going forward, the Group will allocate more resources to coffee related accessory products since they are perceived as lifestyle products and more profitable than traditional electrical appliances.

Liquidity and financial resources, gearing and foreign currency exposures

As at 30 September 2004, the Group had no borrowings outstanding and gearing ratio was zero. In addition to the internally generated cash flows, the Group also made use of export bills discounted facilities to finance its operations during the Period. All borrowings during the Period were based on current market interest rate. The Group maintained a satisfactory financial position with a cash balance of approximately HK\$20,297,000 as at 30 September 2004. The current ratio decreased from 2.35 as at 31 March 2004 to 2.12 as at 30 September 2004. The average stock turnover period slightly decreased from approximately 59 days to approximately 58 days and the average debtor turnover period slightly decreased from approximately 17 days to approximately 13 days.

The Group continues to adopt a prudent approach in funding and treasury policies. Transactions of the Group are mainly denominated in US dollar, Sterling Pound, HK dollar and Renminbi. The Board believes that the operations of the Group are not subject to significant exchange risk.

Charge of Group's assets

There were no charges on the Group's assets as at 30 September 2004.

Employees and remuneration policies

As at 30 September 2004, the Group employed 1,560 full time staff in Hong Kong and 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, subsidized educational and training programmes, mandatory provident fund scheme as well as a share option scheme.

Use of proceeds from the Company's initial public offering

The net proceeds from the issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 March 2003, after deducting listing expenses, amounted to approximately HK\$23,300,000.

Up to 30 September 2004, approximately HK8,500,000 was applied to repay part of the bank borrowings of the Group used to fund the capital contribution to BEP(China) and approximately HK\$14,800,000 was applied to acquire plant and machinery and moulds. Therefore, the listing proceeds have been fully utilized in accordance with the plans detailed in the prospectus dated 18 February 2003.

Interim dividend

The Board does not recommend the payment of an interim dividend for the Period.

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 Period.

Compliance with the Code of Best Practice

In the opinion of the Board, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the Period, except that independent non-executive directors of the Company were not appointed for specific terms but were subject to retirement by rotation at the annual general meeting in accordance with the Company's bye-laws.

Audit committee

The audit committee of the Company has reviewed the unaudited interim financial statements for the six months ended 30 September 2004.

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.

On behalf of the Board

Chan Tat

Chairman and Managing Director

Hong Kong, 20 December 2004

OTHER INFORMATION

Directors' interests and short positions in shares, underlying shares and debentures

As at 30 September 2004, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in underlying shares

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

| Name of Directors | Date of Grant | Exercisable Period | Exercise Price HK\$ | Number of | Approximate |
|-------------------------------|---------------|--------------------------|------------------------|---|-------------|
| | | | | shares subject to outstanding options as at 30.9.2004 | |
| 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% |
| Mr. Sin Cheuk Lok, Christopus | 13.08.2003 | 18.08.2003 to 02.03.2013 | 0.69 | 500,000 | 0.21% |

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

The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

Save as disclosed above, as at 30 September 2004, 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 for Securities Transactions by Directors of Listed Issuers.

Other than the share options disclosed above, at no time during the Period was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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Substantial shareholders

As at 30 September 2004, the interests and short positions of shareholders (other than a director or chief executive) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Long position in shares

| Name of Shareholders | Capacity | Long positions in shares (Corporate Interest) | Approximate percentage of the Company's issued share capital |
|---|-----------------|--|---|
| Best Practice Enterprises Limited (<i>Note 1</i>) | Trustee | 84,925,000 | 35.39% |
| Target World Enterprises Limited (<i>Note 2</i>) | Trustee | 84,810,000 | 35.34% |

Notes:

1. 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. 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.
2. 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. 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.

Save as disclosed above, as at 30 September 2004, 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.