

2004
Interim Report

ANEX[®]

Anex International Holdings Limited

OPERATING RESULTS

The Board of Directors of Anex International Holdings Limited (the "Company") are pleased to announce that the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2004, together with the comparative figures for the corresponding period in 2003, are summarised as follows:

Condensed Consolidated Income Statement (Unaudited)

		Six months ended	
		30 September	
	Notes	2004	2003
		HK\$'000	HK\$'000
Turnover	2	159,095	116,856
Cost of sales		(127,501)	(89,503)
Gross profit		31,594	27,353
Other revenue		1,238	784
Selling and distribution costs		(12,251)	(8,249)
Administrative expenses		(18,273)	(16,920)
Profit from operating activities	3	2,308	2,968
Finance costs		(943)	(654)
Share of profits of an associate		435	112
Profit before taxation		1,800	2,426
Taxation	4	(182)	(203)
Net profit before minority interests		1,618	2,223
Minority interests		(223)	(63)
Net profit attributable to shareholders		1,395	2,160
Earnings per share – basic	5	0.30 cents	0.47 cents

Condensed Consolidated Balance Sheet

	Notes	(Unaudited) 30 September 2004 HK\$'000	(Audited) 31 March 2004 HK\$'000
NON-CURRENT ASSETS			
Fixed assets		100,223	99,338
Interest in associate		18,656	20,705
Notes receivable		5,105	5,105
		123,984	125,148
CURRENT ASSETS			
Inventories		65,856	59,067
Mould deposits		6,002	5,327
Trade receivables	7	39,470	33,497
Prepayments, deposits and other receivables		7,883	5,895
Pledged deposits		2,741	2,638
Cash and bank balances		9,635	8,798
		131,587	115,222
CURRENT LIABILITIES			
Trade payables	8	57,795	49,737
Other payables and accruals		20,930	15,537
Interest – bearing bank loan and other borrowings		20,609	17,792
		99,334	83,066
NET CURRENT ASSETS			
		32,253	32,156
TOTAL ASSETS LESS CURRENT LIABILITIES			
		156,237	157,304
NON-CURRENT LIABILITIES			
Interest – bearing bank loan and other loans		7,650	10,800
Finance lease payables		1,018	563
Deferred tax liabilities		5,585	5,585
		14,253	16,948
MINORITY INTERESTS			
		400	176
		141,584	140,180
CAPITAL AND RESERVES			
Issued capital	9	45,752	45,752
Reserves	10	95,832	94,428
		141,584	140,180

Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Issued ordinary share capital	Share premium account	Capital reserve	Distributable reserve	Fixed Assets revaluation reserve	Exchange fluctuation reserve	Retained Profits/ (accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2004	45,752	-	2,789	4,995	19,856	263	66,525	140,180
Net profit for the period	-	-	-	-	-	-	1,395	1,395
Exchange realignments	-	-	-	-	-	9	-	9
At 30 September 2004	45,752	-*	2,789*	4,995*	19,856*	272*	67,920*	141,584
At 1 April 2003	45,752	103,948	2,789	-	25,170	(7)	(23,292)	154,360
Net profit for the period	-	-	-	-	-	-	2,160	2,160
Exchange realignments	-	-	-	-	-	121	-	121
At 30 September 2003	45,752	103,948	2,789	-	25,170	114	(21,132)	156,641
Reserves retained by:								
Company and subsidiaries	45,752	-	2,789	4,995	19,856	272	50,186	123,850
An associate	-	-	-	-	-	-	17,734	17,734
At 30 September 2004	45,752	-	2,789	4,995	19,856	272	67,920	141,584
Company and subsidiaries	45,752	103,948	2,789	-	25,170	114	(43,071)	88,950
An associate	-	-	-	-	-	-	21,939	21,939
At 30 September 2003	45,752	103,948	2,789	-	25,170	114	(21,132)	156,641

* These reserve accounts comprise the consolidated reserves of HK\$95,831,000 (31/03/04: HK\$94,428,000) in the consolidated balance sheet.

Condensed Consolidated Cash Flow Statement (Unaudited)

	Six months ended 30 September 2004 HK\$'000	Six months ended 30 September 2003 HK\$'000
Net cash from operating activities	5,679	6,280
Net cash used in investing activities	(3,995)	(6,076)
Net cash used in financing activities	(857)	(3,257)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	827	(3,053)
Cash and cash equivalents at the beginning of period	8,798	11,592
Effect of foreign exchange rate changes, net	10	127
	<hr/>	<hr/>
Cash and cash equivalents at the end of period	9,635	8,666
	<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	9,635	8,666
	<hr/>	<hr/>
	9,635	8,666
	<hr/>	<hr/>

Notes:

1. Basis of Preparation and Principal Accounting Policies

The unaudited condensed consolidated financial statements for the period of the Group have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies adopted are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 March 2004.

2. Segment Information

Segment information is presented by way of two segment formats: (i) by business segment on a primary segment reporting basis; and (ii) by geographical segment on a secondary segment reporting basis.

(a) Business segments

The Group has two business segments, namely the design and manufacture of electrical appliances and the trading of merchandise. An analysis of sales and profit by business segment is as follows:

	Segment revenue		Segment result	
	Sales to		Profit from	
	external customer		operating activities	
	Six months ended		Six months ended	
	30 September		30 September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Design and manufacture of electrical appliances	143,161	108,058	1,703	2,446
Trading of merchandise	15,934	8,798	605	522
	159,095	116,856	2,308	2,968

(b) Geographical segments

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of customers.

The following tables present revenue for the Group's geographical segments.

	Segment revenue	
	Sales to external customers	
	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
By geographical area:		
Europe	91,028	52,865
North America	22,637	39,323
South America	7,509	3,953
Asia Pacific	33,927	14,396
Middle East	1,187	2,437
Oceania	2,731	3,846
Africa	76	36
	159,095	116,856

3. Profit from Operating Activities

	Six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
Profit from operating activities is arrived at after charging:		
Depreciation and amortisation	5,664	5,747

4. Taxation

No Hong Kong profits tax has been provided as the Group had no assessable profits arising in Hong Kong during both periods. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
Group:		
Elsewhere	50	171
Share of tax attributable to an associate	132	32
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Tax charge for the period	182	203
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5. Earnings per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$1,395,000 (2003: HK\$2,160,000) and on the weighted average of 457,524,848 (2003: weighted average of 457,524,848) ordinary shares in issue during the period.

Diluted earnings per share amounts for the periods ended 30 September 2004 and 2003 have not been disclosed as no diluting events existed during these periods.

6. Property, Plant and Equipment

During the period, the Group spent approximately HK\$6,548,000 (2003: HK\$6,712,000) on additions to plant and equipment to upgrade its manufacturing capabilities.

7. Trade Receivables

The Group's trading terms with its customers are mainly on credit and letter of credit, except for new customers, where payment in advance and cash on delivery are normally required. Invoices are normally payable between 30 and 60 days after issuance, except for certain well-established customers, where the terms are extended to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
0 – 30 days	29,651	25,274
31 – 60 days	3,967	3,916
61 – 90 days	1,374	963
More than 90 days	4,478	3,344
	39,470	33,497

8. Trade Payables

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
0 – 30 days	12,807	16,174
31 – 60 days	10,785	9,510
61 – 90 days	10,639	4,792
More than 90 days	23,564	19,261
	57,795	49,737

9. Share Capital and Share Options

During the period there were no changes in the share capital and share options.

10. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior period are presented in the consolidated statement of changes in equity on page 3 of the financial statements.

11. Contingencies and Commitments

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Contingent liabilities		
Bills discounted with recourse	<u>5,461</u>	<u>1,767</u>
Capital commitments		
Authorised and contracted for	<u>588</u>	<u>344</u>

12. Related Party Transactions

During the period, the Group had the following transaction with related parties:

		Six months ended 30 September 2004 HK\$'000	2003 HK\$'000
Nature of transaction	Notes		
Interest expenses paid to an associate	(i)	<u>5</u>	<u>9</u>

Note:

- (i) The interest expenses related to advance from an associate at interest rates of 0.125% (2003: 0.125%) per annum during the period.

13. Comparative Figures

Certain comparative figures have been reclassified to conform to current period's presentation.

INTERIM DIVIDEND

The directors of the Company (the "Directors") do not recommend the payment of any interim dividend for the period (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 September 2004, the Group achieved record sales of HK\$159.1 million (2003: HK\$116.9 million), an increase of 36.1% over the comparable period. However, consolidated net profit was down by 35.4% to HK\$1.4 million (2003: HK\$2.16 million) as rising prices of raw materials continue to affect the profit margin during the period.

Due to the remarkable growth of the OEM business and the successful launch of our new products during the period, the Group's core business in design and manufacture of electrical appliances and the merchandise trading business grew by 32.5% and 81.1% respectively over the comparable period.

Sales to Europe increased by 72.2% as new products developed in collaboration with our OEM customers were well received by the market there. Fuelled by the robust economic growth in Asia Pacific countries, sales to the region rose by 135.7% during the period under review. However, sales to North America experienced a temporary drop of 42.4% as shipments to a major customer were shifted to the second half of the year to accommodate the marketing campaign of the customer.

During the period under review, the Group faced rising energy and raw material prices such as plastic resin and metals, which weight down our profit margin during the period, but we were able to alleviate the impact on gross profit by imposing tighter control on the operating cost of our PRC factory through implementation of effective cost reduction measures such as flexible production shift to reduce labour headcount and overtime payment as well as replacement of ageing machines with energy-saving machines to save energy cost. However, there were increases in distribution, administrative and financial expenses in associate with the increasing sales and trade finance activities during the period.

Prospects

While the performance of the Group may continue to be affected by high raw material costs in the short term, the trend of strong sales growth looks rather sustainable. Because a higher volume will bolster our economy of scale as well as capacity utilization, production efficiency will help us reduce our operating costs. Meanwhile, our management has taken measures to uplift profit margin through product diversification, negotiation for better pricing of our products, and improving product design to save on material costing.

Looking ahead, the Group is confident that our turnover will continue to grow into the second half of the year which will put us on track to deliver significant annual sales growth and better performance for the year.

Financial Review

The Group's gearing ratio, expressed as a percentage of total liabilities over total net assets of the Group, increase from 71.3% at the beginning of the period to 80.2% as at 30 September 2004. The working capital of the Group remains at the same level as at the beginning of the period. While bank borrowings, accounts payable and accruals were up in associate with surging sales, such increases were just matched by the corresponding increase in inventories and trade receivables at end of the period.

At the balance sheet date, the Group has HK\$29.3 million (31/03/04: HK\$29.2 million) interest bearing loans, consisted of HK\$19.8 million secured trust receipt loans and packing loans; HK\$1.8 million finance lease payable and other loans of HK\$7.7 million. The aforesaid loans comprise approximately 70.4% (31/03/04: 61.0%) thereof repayable within one year and 28.5% (31/03/04: 38.3%) thereof repayable within the second year and the balance of 1.1% thereof repayable in the third year (31/03/04: 0.7%). All the loans are mainly denominated in Hong Kong dollars. As at 30 September 2004, the Group had total cash and pledged deposits amounting to HK\$12.4 million (31/03/04: HK\$11.4 million).

Charge on Assets

Certain properties of the Group situated in Hong Kong were pledged to secure general banking facilities granted to the Group. These properties comprised leasehold land and buildings at a total net book value amounting to HK\$13.7 million (31/03/04: HK\$13.9 million) as at the period end.

Exposure to Exchange Risk

The Group has little foreign exchange exposure as its sales revenue was principally denominated either in Hong Kong dollars or in U.S. dollars and its borrowings are in Hong Kong dollars.

Employee and Remuneration Policy

The Group employs a total of 2,234 (31/03/04: 2,225) employees in Hong Kong, the People's Republic of China and overseas at end of the period. The Group regularly reviews its employees' pay levels and performance bonus system to ensure that the remuneration policy is competitive within the relevant industries.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2004, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept 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 Companies, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Notes	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Beneficiary of a trust		
Kwok Hon Ching	(a)	8,900,000	75,000,000	83,900,000	18.34%
Kwok Hon Kau, Johnny	(b)	8,900,000	75,000,000	83,900,000	18.34%
Kwok Hon Lam	(c)	8,900,000	75,000,000	83,900,000	18.34%
Lee Ho Man, Eric		2,000,000	–	2,000,000	0.44%
Chau Kwok Wai		1,000,000	–	1,000,000	0.22%

Notes (a) to (c) above are detailed in the explanatory notes in the section headed "Substantial shareholders' and other persons' interests in shares and underlying shares" below.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded 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 Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section share option scheme, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 September 2004, the following interests of 5% or more of the issued share capital were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Saramade Company Limited	(a)	Directly beneficially owned	75,000,000	16.39%
Prominent Field Inc.	(b)	Directly beneficially owned	75,000,000	16.39%
Armstrong Inc.	(c)	Directly beneficially owned	75,000,000	16.39%
Hui Mei Heung	(c)	Beneficial owner	75,000,000	16.39%
Kwok Lee Shu Noo	(d)	Through spouse and a beneficial owner	83,900,000	18.34%
Leung Wai Shan, Christina	(e)	Through spouse and a beneficial owner	83,900,000	18.34%
Cheng Mei Chu	(f)	Through spouse and a beneficial owner	83,900,000	18.34%
Equity Trustee Limited	(g)	Trustee	225,000,000	49.18%
David Michael Webb		Through controlled Corporation and a beneficial owner	23,012,000	5.03%

Notes:

- (a) 75,000,000 Shares are held by Saramade Company Limited, a trustee of a unit trust owned as to a majority by a discretionary trust established for the benefit of the family members of Mr. Kwok Hon Ching.
- (b) 75,000,000 Shares are held by Prominent Field Inc., a trustee of a unit trust owned as to a majority by a discretionary trust established for the benefit of the family members of Mr. Kwok Hon Kau, Johnny.
- (c) 75,000,000 Shares are held by Armstrong Inc., a trustee of a unit trust owned as to a majority by a discretionary trust established by Madam Hui Mei Heung for the benefit of the family members of Mr. Kwok Hon Lam.
- (d) 83,900,000 Shares are deemed to be held by Mrs Kwok Lee Shu Noo by virtue of her being the spouse of Mr Kwok Hon Ching.

Notes (continued):

- (e) 83,900,000 Shares are deemed to be held by Ms Leung Wai Shan, Christina by virtue of her being the spouse of Mr Kwok Hon Kau, Johnny.
- (f) 83,900,000 Shares are deemed to be held by Ms Cheng Mei Chu by virtue of her being the spouse of Mr Kwok Hon Lam.
- (g) Equity Trustee Limited is the trustee of the discretionary trusts mentioned in notes (a), (b) and (c) above.

SHARE OPTION SCHEME

Pursuant to the share option scheme ("Scheme") adopted by the Company on 9 September 2002, the Company can grant options to eligible participants who contribute to the success of the Group's operations.

No share option was granted during the period.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the Unaudited Interim Financial Statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2004.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited, throughout the accounting period covered by the interim report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the bye-laws of the Company.

By Order of the Board
Kwok Hon Ching
Chairman

Hong Kong, 22 December 2004