

# Notes to the Financial Statements

For the year ended 31 March 2004

## 1. GROUP REORGANISATION AND BASIS OF PRESENTATION

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

Pursuant to a group reorganisation scheme (the "Group Reorganisation") in preparation for the listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 6 January 2003. This was accomplished by acquiring the entire issued share capital of Better Electrical Products Company Limited ("BEPCL"), which was, as at 31 March 2003 and 2004, the intermediate holding company of the other subsidiaries, namely Better Electrical Products (HK) Company Limited ("BEP(HK)") and Bailingda Industrial (Shenzhen) Co., Limited ("BEP(China)"), further details of which are set out in Note 13 to the financial statements. In consideration of such acquisition, the Company (i) allotted and issued an aggregate of 150,000,000 shares of HK\$0.01 each in the share capital of the Company, credited as fully paid to Target World Enterprises Limited as to 75,000,000 shares and Best Practice Enterprises Limited as to 75,000,000 shares at the respective directions of the former shareholders of BEPCL, and (ii) credited, as fully paid up at par, the then existing 10,000,000 nil paid shares then held as to 5,000,000 shares by Target World Enterprises Limited and as to 5,000,000 shares by Best Practice Enterprises Limited.

The Company's shares were successfully listed on the Stock Exchange on 3 March 2003. Further details relating to the Group Reorganisation are set out in Note 20 to these financial statements and the prospectus dated 18 February 2003 issued by the Company.

The Group Reorganisation has been accounted for as a reorganisation of companies under common control. Accordingly, the Company together with its subsidiaries are regarded and accounted for as a continuing group in the preparation of the Group's financial statements. On this basis, the Company is treated as the holding company of the Group throughout the years presented rather than from the subsequent date of acquisition of its present subsidiaries on 6 January 2003. The consolidated financial statements of the Group for the years ended 31 March 2003 and 2004 include the results of the Company and its subsidiaries with effect from 1 April 2002. All significant intra-group transactions have been eliminated on consolidation.

## 2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

In the current year, the Group adopted SSAP 12 (revised) "Income taxes" which is effective for accounting periods commencing on or after 1 January 2003. The changes to the Group's accounting policy and the effect of adopting this revised SSAP are set out below.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 2. ACCOUNTING POLICIES (continued)

A summary of the significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

### a. Basis of measurement

The measurement basis used in the preparation of the financial statements is historical cost.

### b. Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of the board of directors. In the Company's balance sheet, investments in subsidiaries are stated at cost less any provision for impairment losses.

The consolidated financial statements comprise the consolidation of the financial statements of the Company and its subsidiaries as at 31 March 2004 and of the results for the year then ended. All significant intra-group transactions have been eliminated on consolidation.

### c. Tangible fixed assets and depreciation

An item of tangible fixed asset is recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset to the Group can be measured reliably.

Tangible fixed assets are stated at cost less accumulated depreciation and impairment. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Depreciation is provided on the straight-line method so as to write down the cost of fixed assets to their estimated realisable value over their anticipated useful lives at the following annual rates:

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

# Notes to the Financial Statements

For the year ended 31 March 2004

## 2. ACCOUNTING POLICIES (continued)

### c. Tangible fixed assets and depreciation (continued)

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

### d. Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of raw materials is determined on the first-in, first-out basis. Cost of work-in-progress and finished goods includes materials, labour and appropriate portions of attributable overheads. Net realisable value represents the estimated selling price less all further costs to completion and direct selling costs.

### e. Current assets and liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

### f. Translation of foreign currencies

Transactions in foreign currencies during the year are translated into Hong Kong dollars at rates of exchange ruling at the dates of the transactions or forward contract rates where applicable. Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at rates of exchange ruling at the balance sheet date or forward contract rates where applicable. All gains and losses on translation of foreign currencies are dealt with in the income statement.

The results of foreign subsidiaries are translated into Hong Kong dollars at the average exchange rates for the year. Balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 2. ACCOUNTING POLICIES (continued)

### g. Assets under leases

#### (i) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

#### (ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the income statement over the lease periods. Depreciation is provided in accordance with the Group's depreciation policy (Note 2c).

### h. Impairment losses

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 2. ACCOUNTING POLICIES (continued)

### i. Income tax

The charge for taxation in the income statement for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred tax was accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives figures presented have been restated to conform to the changed policy.

As detailed in Note 22 to the financial statements, opening retained profits as at 1 April 2002 and 2003 have been increased by approximately HK\$1,358,000 and HK\$672,000 respectively. This change has resulted in a decrease in deferred tax liabilities as at 31 March 2003 by approximately HK\$672,000 and a decrease in net profit for the year ended 31 March 2003 by approximately HK\$686,000.

### j. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past event which will result in a probable outflow of economic benefits that can be reasonably estimated.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 2. ACCOUNTING POLICIES (continued)

### k. Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully in the employees when contributed into the MPF Scheme.
- (iii) Employees in the Group's subsidiary established in the People's Republic of China ("PRC") are required to participate in a defined contribution retirement scheme operated by local municipal government. The PRC subsidiary is required to contribute certain percentages 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.
- (iv) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.
- (v) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 2. ACCOUNTING POLICIES (continued)

### l. Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) Revenue from the sale of products is recognised on the transfer of ownership when the significant risks and rewards of ownership have been transferred to the buyers, which generally coincides with the time of shipment.
- (ii) Bank interest income is recognised on a time-apportioned basis on the principal outstanding and at the rates applicable.
- (iii) Sundry income is recognised when received.

### m. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the year in which they are incurred.

### n. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### o. Cash and cash equivalents

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

# Notes to the Financial Statements

For the year ended 31 March 2004

## 2. ACCOUNTING POLICIES (continued)

### p. Research and development

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed as incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products of not exceeding five years, commencing from the date when the products are put into commercial production.

## 3. TURNOVER AND REVENUES

The Group is principally engaged in the design, manufacture and sale of home electrical appliances with production facilities based in 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:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of products	209,429	288,455
Other revenues		
Bank interest income	68	38
Sundry income	241	414
	309	452
Total revenues	209,738	288,907

# Notes to the Financial Statements

For the year ended 31 March 2004

## 3. TURNOVER AND REVENUES (continued)

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

	2004 HK\$'000	2003 HK\$'000
<b>Turnover by products:</b>		
Kettles	101,884	162,300
Irons	78,815	110,922
Coffee related accessory products	17,577	3,774
Heaters	7,711	9,248
Others	3,442	2,211
Total turnover	<u>209,429</u>	<u>288,455</u>
<b>Contribution to trading results by products:</b>		
Kettles	(6,130)	19,569
Irons	(3,807)	11,923
Coffee related accessory products	1,080	49
Heaters	(991)	155
Others	(571)	13
(Loss)/Profit from operations	<u>(10,419)</u>	<u>31,709</u>
<b>Turnover by geographical area of principal markets determined on the basis of destination of delivery of products:</b>		
Europe	119,052	172,955
North America	51,833	63,709
Australia and New Zealand	18,726	34,267
Asia and Middle East	6,777	9,289
Others	13,041	8,235
Total turnover	<u>209,429</u>	<u>288,455</u>
<b>Contribution to trading results by geographical area of principal markets:</b>		
Europe	(6,043)	20,645
North America	268	6,967
Australia and New Zealand	(1,086)	3,199
Asia and Middle East	(2,063)	316
Others	(1,495)	582
(Loss)/Profit from operations	<u>(10,419)</u>	<u>31,709</u>

# Notes to the Financial Statements

For the year ended 31 March 2004

## 3. TURNOVER AND REVENUES (continued)

Save for plant and machinery, moulds and inventories of the Group which are located in the PRC, substantially all of the Group's assets and liabilities are located in Hong Kong. Analysis of assets and liabilities by products have not been presented as the Group's assets (except for trade debtors) and liabilities were unallocated in view of the nature of the Group's business that its products are manufactured from common raw materials and parts. Accordingly, the Board consider that the disclosure of such information is not meaningful.

## 4. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/Profit from operations is stated after charging/(crediting):

	2004 HK\$'000	2003 HK\$'000
Staff costs (including directors' remuneration)		
Salaries and wages	28,660	27,508
Retirement scheme contributions	401	480
	<u>29,061</u>	<u>27,988</u>
Auditors' remuneration	549	527
Depreciation of owned tangible fixed assets	10,548	9,822
Operating lease rentals in respect of land and buildings	3,584	3,660
Cost of inventories expensed	190,266	229,709
Reversal of provision for defective goods replacement costs (included in other income)	<u>—</u>	<u>(1,389)</u>

## 5. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Bank charges	636	702
Interest on bank loans and overdrafts – wholly repayable within five years	<u>202</u>	<u>412</u>
	<u>838</u>	<u>1,114</u>

## 6. INCOME TAX

Hong Kong profits tax has been calculated at a rate of 17.5% (2003: 16%) 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 for the year ended 31 March 2004 as the Group has no assessable profit for the current year.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 6. INCOME TAX (continued)

No provision for overseas taxation has been made in the financial statements. 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 (2003: Nil).

The amount of income tax (credited)/charged to the consolidated income statement represents:

	2004 HK\$'000	2003 As restated (Note 2(i)) HK\$'000
<b>Current tax</b>		
Provision for Hong Kong profits tax for the year	–	2,300
Under-provision in prior years	–	134
	<u>–</u>	<u>2,434</u>
<b>Deferred tax (Note 19)</b>		
Origination and reversal of temporary differences	(718)	686
Effect of increase in tax rate	101	–
	<u>(617)</u>	<u>686</u>
	<u>(617)</u>	<u>3,120</u>

A reconciliation between income tax (credit)/charge and accounting (loss)/profit at applicable tax rate is as follows:

	2004 HK\$'000	2003 HK\$'000
(Loss)/Profit before taxation	<u>(11,257)</u>	<u>30,595</u>
Notional tax on (loss)/profit before taxation, calculated at rate of 17.5% (2003: 16%)	(1,970)	4,895
Tax effect of non-deductible expenses	3	1,760
Tax effect of non-taxable revenues	(20)	(3,669)
Tax effect of tax loss not recognised	1,269	–
Under-provision in prior years	–	134
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	<u>101</u>	<u>–</u>
Tax (credit)/charge for the year	<u>(617)</u>	<u>3,120</u>

# Notes to the Financial Statements

For the year ended 31 March 2004

## 7. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim dividend declared and paid ( <i>Note (i)</i> )	–	12,000
Final dividend proposed HK\$ Nil (2003: HK2 cents) per share ( <i>Note (ii)</i> )	–	4,800
	<u>–</u>	<u>16,800</u>

*Notes:*

- (i) The dividends were paid by BEPCL and BEP(HK), wholly-owned subsidiaries of the Company, to their then shareholders prior to the Group Reorganisation, further details of which are disclosed in Note 1 to the financial statements.
- (ii) At a meeting held on 20 June 2003, the directors proposed a final dividend of HK 2 cents per ordinary share in respect of the year ended 31 March 2003. This proposed final dividend was not recognised as a liability in the financial statements for the year ended 31 March 2003, but was paid during the year ended 31 March 2004.

## 8. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share for the year ended 31 March 2004 is based on the Group's net loss attributable to shareholders of approximately HK\$10,640,000 (2003: net profit attributable to shareholders of approximately HK\$27,475,000) and on the weighted average of 240,000,000 ordinary shares (2003: weighted average of 200,400,000 ordinary shares) in issue during the year.

The diluted loss per share for the year ended 31 March 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. No diluted earnings per share has been disclosed for the year ended 31 March 2003 as there were no dilutive potential ordinary shares in existence for that year.

## 9. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

	2004 HK\$'000	2003 HK\$'000
<i>Independent non-executive directors:</i>		
– Fees	240	60
<i>Executive and other non-executive directors:</i>		
– Fees	120	30
– Salaries, other allowances and benefits in kind	4,421	3,888
– Retirement scheme contributions	35	36
	<u>4,816</u>	<u>4,014</u>

# Notes to the Financial Statements

For the year ended 31 March 2004

## 9. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
HK\$ Nil – HK\$1,000,000	6	5
HK\$1,000,001 – HK\$1,500,000	2	2
	<u>8</u>	<u>7</u>

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

The five highest paid employees of the Group during the year ended 31 March 2004 included 4 (2003: 4) directors, whose remunerations have been disclosed above. Details of the remuneration of the remaining 1 (2003: 1) highest paid, non-director employee of the Group during the year ended 31 March 2004 are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, other allowances and benefits in kind	442	442
Retirement scheme contributions	12	12
	<u>454</u>	<u>454</u>

The remunerations of the remaining 1 (2003: 1) highest paid, non-director employee were within the band of nil to HK\$1,000,000.

No emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 10. RETIREMENT BENEFITS SCHEMES

Prior to 1 December 2000, the Group participated in a defined contribution scheme which was operated by an independent administrator for all qualified employees. Contributions to this scheme were made by both the employer and employees at rates of 5% to 15% on the employees' salaries. There were no unutilised forfeited contributions as at 31 March 2003 and 2004.

Since 1 December 2000, the Group operates the MPF Scheme for all of its employees in Hong Kong. Both the Group (employer) and its employees make monthly contributions to the MPF Scheme at 5% of the employees' basic salaries in accordance with the rules of the MPF Scheme. The contributions of employer and employees are subject to cap of monthly basic salaries of HK\$20,000 and thereafter contributions are voluntary. The employer's contributions are charged to the income statement as they become payable. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully in the employees when contributed into the MPF Scheme.

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 7% 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 as at 31 March 2003 and 2004.

## 11. NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated net (loss)/profit attributable to shareholders includes a profit of approximately HK\$32,000 (2003: HK\$4,807,000) which has been dealt with in the financial statements of the Company.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 12. TANGIBLE FIXED ASSETS

### The Group

	Plant and machinery <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>At cost:</b>							
As at 1 April 2003	42,915	34,265	889	1,595	3,113	2,135	84,912
Additions	5,277	7,244	–	729	–	73	13,323
Disposals	–	–	–	–	(265)	–	(265)
As at 31 March 2004	48,192	41,509	889	2,324	2,848	2,208	97,970
<b>Accumulated depreciation:</b>							
As at 1 April 2003	21,462	28,199	871	1,409	2,948	1,574	56,463
On disposals written back	–	–	–	–	(265)	–	(265)
Charge for the year	4,056	5,750	18	273	165	286	10,548
As at 31 March 2004	25,518	33,949	889	1,682	2,848	1,860	66,746
<b>Net book value:</b>							
As at 31 March 2004	22,674	7,560	–	642	–	348	31,224
As at 31 March 2003	21,453	6,066	18	186	165	561	28,449

# Notes to the Financial Statements

For the year ended 31 March 2004

## 13. INVESTMENTS IN SUBSIDIARIES

As at 31 March 2004, the Company had the following subsidiaries:

Name	Place of incorporation/ establishment and principal operations	Principal activities	Particulars of issued and paid up capital	Percentage of equity attributable to the Company
BEPCL	British Virgin Islands/ Hong Kong	Investment holding	10,000 ordinary shares of US\$1	100% (direct)
BEP(HK)	Hong Kong	Design, manufacture and sale of home electrical appliances	10,000 ordinary shares of HK\$1	100% (indirect)
BEP(China) (Note)	PRC	Manufacture of home electrical appliances	Registered capital of US\$6,916,530	100% (indirect)

*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 2002 and 2003 were not audited by HLB Hodgson Impey Cheng. As at 31 March 2004, the Group is committed to contribute to the registered capital of BEP (China) in the amount of approximately US\$1,083,000 (equivalent to approximately HK\$8,451,000).

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	<u>65,484</u>	<u>65,484</u>

The amounts due from subsidiaries as shown on the Company's balance sheet are unsecured, interest-free and have no fixed terms of repayment.

## 14. INVENTORIES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials, at cost	16,791	23,789
Work-in-progress, at cost	5,620	3,288
Finished goods, at cost	<u>4,864</u>	<u>7,360</u>
	<u>27,275</u>	<u>34,437</u>

# Notes to the Financial Statements

For the year ended 31 March 2004

## 15. TRADE AND OTHER RECEIVABLES

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Trade debtors	6,358	11,544
Bills receivable	301	922
Deposits paid	1,814	2,248
Sundry debtors and prepayments	5,949	1,108
	<u>14,422</u>	<u>15,822</u>

The ageing analysis of trade debtors is as follows:

	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	6,298	11,487
31 – 60 days	–	42
61 – 180 days	60	15
	<u>6,358</u>	<u>11,544</u>

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.

## 16. CASH AND BANK BALANCES

As at 31 March 2004, the cash and bank balances denominated in Renminbi amounted to approximately HK\$3,592,000 (2003: HK\$3,126,000) which remained not freely convertible into foreign currencies.

## 17. BANKING FACILITIES

As at 31 March 2004, the Group's general banking facilities are secured by corporate guarantees given by the Company and its direct wholly-owned subsidiary, BEPCL.

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.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 18. TRADE AND OTHER PAYABLES

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Trade creditors	16,097	19,675
Trade deposits received	291	482
Sundry creditors and accruals	4,205	3,781
	<u>20,593</u>	<u>23,938</u>

The ageing analysis of trade creditors is as follows:

	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	15,690	18,979
31 – 60 days	351	551
61 – 180 days	56	145
	<u>16,097</u>	<u>19,675</u>

## 19. DEFERRED TAX

The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

### The Group

	Depreciation allowances in excess of related depreciation	
	2004	2003
	HK\$'000	HK\$'000
As at 1 April 2003/2002, as previously reported	1,750	1,750
Effect of change in accounting policy – adoption of SSAP12 (revised) ( <i>Note 2(i)</i> )	<u>(672)</u>	<u>(1,358)</u>
As at 1 April 2003/2002, as restated (Credited)/Charged to consolidated income statement	1,078 (718)	392 686
Effect of change in tax rate charged to consolidated income statement	<u>101</u>	<u>–</u>
As at 31 March 2004/2003	<u>461</u>	<u>1,078</u>

# Notes to the Financial Statements

For the year ended 31 March 2004

## 19. DEFERRED TAX (continued)

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profits streams against which the asset can be utilised. As at 31 March 2004, the unprovided deferred tax asset of the Group is as follows:

	2004 HK\$'000	2003 HK\$'000
Tax effect of temporary difference attributable to estimated tax losses	<u>1,196</u>	<u>—</u>

## 20. SHARE CAPITAL

The following movements in the Company's authorised and issued share capital took place during the period from 19 October 2000 (date of incorporation) to 31 March 2004:

- (a) On 19 October 2000 (date of incorporation), the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.10 each, all of which were allotted and issued nil paid on 26 October 2000.
- (b) On 11 April 2002, by a written resolution, the then shareholders of the Company resolved to subdivide every issued and unissued share of HK\$0.10 each in the share capital of the Company to 10 shares of HK\$0.01 each.
- (c) On 6 January 2003, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of additional 9,990,000,000 shares of HK\$0.01 each.
- (d) On 6 January 2003, pursuant to the Group Reorganisation, further details of which are set out in Note 1 to the financial statements, as consideration for the acquisition by the Company of the entire issued share capital of BEPCL, the Company (i) allotted and issued an aggregate of 150,000,000 shares of HK\$0.01 each in the share capital of the Company, credited as fully paid to Target World Enterprises Limited as to 75,000,000 shares and Best Practice Enterprises Limited as to 75,000,000 shares at the respective directions of the former shareholders of BEPCL, and (ii) credited, as fully paid up at par, the then existing 10,000,000 nil paid shares then held as to 5,000,000 shares by Target World Enterprises Limited and as to 5,000,000 shares by Best Practice Enterprises Limited.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 20. SHARE CAPITAL (Continued)

- (e) Pursuant to written resolutions of the shareholders of the Company passed on 6 January 2003 and 12 February 2003, a total of 36,800,000 shares of HK\$0.01 each were allotted as fully paid at par to the holders of the shares whose names appeared on the register of members of the Company in proportion to their then respective shareholdings in the Company as at the close of business on 5 January 2003, by way of capitalisation of an amount of HK\$368,000 standing to the credit of the share premium account of the Company, conditional upon the share premium account being credited as a result of the new issue and placing of shares to the public as detailed in note (f) below.
- (f) On 27 February 2003, a total of 43,200,000 shares of HK\$0.01 each were issued to the public at a price of HK\$0.70 per share for total cash issue proceeds of approximately HK\$30,240,000 before related listing expenses. The excess of the issue proceeds at par value of the shares issued amounted to approximately HK\$29,808,000 and was credited to the share premium account of the Company.

A summary of the above movements in the issued share capital of the Company is as follows:

	Notes	Number of shares issued	Par value HK\$'000
Shares of HK\$0.10 each allotted and issued nil paid and balance as at 31 March 2002	20(a)	1,000,000	–
Subdivision of every issued and unissued share of HK\$0.10 each into 10 shares of HK\$0.01 each	20(b)	9,000,000	–
		<hr/>	<hr/>
Number of shares of HK\$0.01 each		10,000,000	–
Consideration for the acquisition of the entire issued share capital of BEPCL by:	20(d)		
(i) allotment and issue of 150,000,000 shares credited as fully paid		150,000,000	1,500
(ii) credit as fully paid up at par the then existing 10,000,000 nil paid shares		–	100
		<hr/>	<hr/>
		160,000,000	1,600
Capitalisation issue credited as fully paid conditional upon the share premium account of the Company being credited as a result of the new issue and placing of shares to the public	20(e)	36,800,000	–
New issue and placing of shares to the public	20(f)	43,200,000	432
Capitalisation of the share premium account	20(e)	–	368
		<hr/>	<hr/>
Issued share capital as at 31 March 2003 and 2004		<u>240,000,000</u>	<u>2,400</u>

# Notes to the Financial Statements

For the year ended 31 March 2004

## 21. 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.

During the year ended 31 March 2004, an aggregate of 4,750,000 share options were granted to selected directors and employees of the Company under the Scheme. The grantees are entitled to exercise their options at an exercise price of HK\$0.69 per ordinary share. The closing price of the Company shares immediately before 13 August 2003, the date of grant of the options, was HK\$0.69. As at 31 March 2004, the outstanding number of shares in respect of which options had been granted under the Scheme was 3,550,000 (2003: Nil), representing 1.48% (2003: Nil) of the shares of the Company in issue at that date.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 21. SHARE OPTION SCHEME (Continued)

The following table discloses movements in the Company's share options under the Scheme during the year ended 31 March 2004:

Name of directors/ Employees	Date of grant	Exercisable period	Exercise price per share	Number of share options		
				Granted during the year	Lapsed during the year	Outstanding as at 31 March 2004
Mr. Chan Tat	13 August 2003	13 August 2003 to 2 March 2013	HK\$0.69	1,000,000	–	1,000,000
Mr. Lo Stephen Yiu Hee	13 August 2003	18 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
Total directors				3,000,000	(1,000,000)	2,000,000
Employees	13 August 2003	18 August 2003 to 2 March 2013	HK\$0.69	1,750,000	(200,000)	1,550,000
Grand total				<u>4,750,000</u>	<u>(1,200,000)</u>	<u>3,550,000</u>

No share options were exercised or cancelled during the year.

No charge is recognised in the income statement in respect of the value of share options granted during the year. The directors believe that any statement regarding the value of options granted during the period will not be meaningful to shareholders, taking into account the unique business nature of the Group and its potential for future expansion and that comparable data required for calculation of the value of the options will not be representative of the Group.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 22. RESERVES

The Group	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i> (Note 22(a))	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2002, as previously reported	–	–	54,159	54,159
Effect of change in accounting policy – adoption of SSAP 12 (revised) (Note 2(i))	–	–	1,358	1,358
As at 1 April 2002, as restated	–	–	55,517	55,517
Merger reserve arising on the Group Reorganisation (Note 20(d))	–	(1,522)	–	(1,522)
Share premium arising on new issue and placing of shares to the public (Note 20(f))	29,808	–	–	29,808
Listing expenses	(6,916)	–	–	(6,916)
Capitalisation issue (Note 20(e))	(368)	–	–	(368)
Net profit for the year, as previously reported			28,161	
Effect of change in accounting policy – adoption of SSAP 12 (revised) (Note 2(i))			(686)	
Net profit for the year, as restated			27,475	27,475
Dividend paid	–	–	(12,000)	(12,000)
As at 31 March 2003	22,524	(1,522)	70,992	91,994

# Notes to the Financial Statements

For the year ended 31 March 2004

## 22. RESERVES (continued)

The Group	Share premium HK\$'000	Merger reserve HK\$'000 (Note 22(a))	Retained profits HK\$'000	Total HK\$'000
As at 1 April 2003, as previously reported	22,524	(1,522)	70,320	91,322
Effect of change in accounting policy – adoption of SSAP 12 (revised) (Note 2(i))	–	–	672	672
As at 1 April 2003, as restated	22,524	(1,522)	70,992	91,994
Net loss for the year	–	–	(10,640)	(10,640)
2003 final dividend paid	–	–	(4,800)	(4,800)
<b>As at 31 March 2004</b>	<b>22,524</b>	<b>(1,522)</b>	<b>55,552</b>	<b>76,554</b>
The Company	Share premium HK\$'000	Contributed surplus HK\$'000 (Note 22(b))	Retained profits HK\$'000	Total HK\$'000
As at 1 April 2002	–	–	–	–
Contributed surplus arising on the Group Reorganisation (Note 20(d))	–	63,884	–	63,884
Share premium arising on new issue and placing of shares to the public (Note 20(f))	29,808	–	–	29,808
Listing expenses	(6,916)	–	–	(6,916)
Capitalisation issue (Note 20(e))	(368)	–	–	(368)
Net profit for the year	–	–	4,807	4,807
As at 31 March 2003 and 1 April 2003	22,524	63,884	4,807	91,215
Net profit for the year	–	–	32	32
2003 final dividend paid	–	–	(4,800)	(4,800)
<b>As at 31 March 2004</b>	<b>22,524</b>	<b>63,884</b>	<b>39</b>	<b>86,447</b>

### Notes:

- The merger reserve of the Group represents the difference between the nominal value of the shares of BEPCL acquired pursuant to the Group Reorganisation on 6 January 2003 over the nominal value of the Company's shares issued in exchange therefor.
- The contributed surplus of the Company represents the difference between the fair value of the shares of BEPCL acquired pursuant to the Group Reorganisation on 6 January 2003 over the nominal value of the Company's shares issued in exchange therefor.

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

# Notes to the Financial Statements

For the year ended 31 March 2004

## 23. RELATED PARTY TRANSACTIONS

Apart from those disclosed elsewhere in these financial statements, in the opinion of the directors, 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 year:

	Notes	2004 HK\$'000	2003 HK\$'000
Rental paid to Super Light Manufacturing Products (Shenzhen) Company Limited ("SLMP")	(a)	3,044	3,120
Rental paid to Manwise Investment Company Limited ("Manwise")	(b)	<u>540</u>	<u>540</u>

### 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 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 aggregate rentals in respect of the Industrial Complex for the year ended 31 March 2004 amounted to approximately HK\$3,044,000 and the rental for the remaining term of the tenancy agreement amounts to approximately HK\$1,713,000. The directors consider that such rentals were calculated by reference to open market rentals.

- (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 aggregate rentals in respect of the Premises for the year ended 31 March 2004 amounted to approximately HK\$540,000 and the rental for the remaining term of the tenancy agreement amounts to approximately HK\$1,395,000. The directors consider that such rentals were calculated by reference to open market rentals.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 24. CONTINGENT LIABILITIES

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Export bills discounted with recourse	<u>9,730</u>	<u>6,269</u>

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 (2003: Nil).

## 25. COMMITMENTS

### (i) Capital commitments

Capital commitments outstanding as at 31 March 2004 not provided for in the financial statements are as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Authorised and contracted for in respect of – acquisition of plant and machinery	<u>766</u>	<u>1,423</u>

### (ii) Operating lease commitments

As at 31 March 2004, the total future minimum lease payments under non-cancellable operating leases in respect of rented premises are payable as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	2,253	2,135
Between two to five years	<u>855</u>	<u>–</u>
	<u>3,108</u>	<u>2,135</u>

The Company did not have any significant commitments as at 31 March 2004 (2003: Nil).

## 26. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 26 July 2004.