



SUGA INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

04/05

Annual Report

Systematic Management
Understanding of
Customers' requirements

Good Quality

Advanced Technology



Corporate Objective

To become the leading and most reputable and reliable EMS (Electronics Manufacturing Services) provider in Asia.

Mission Statement

We contribute to the advancement of society by providing people with quality products and employing advanced technology, with protecting the environment always in mind. We hire and nurture professionals and, together, we march towards our goals in pace with time. Putting customers first, we provide them with the best products and services, assuring win-win results.



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CORPORATE INFORMATION

Board of Directors

Executive

Mr. Ng Chi Ho (*Chairman*)
Mr. Ma Fung On (*Deputy Chairman*)
Mr. Wong Wai Lik, Lamson

Non-executive

Mr. Kyle Arnold Shaw, Jr.

Independent Non-executive

Professor Wong Sook Leung, Joshua
Mr. Murase Hiroshi
Mr. Leung Yu Ming, Steven

Company Secretary

Ms. Chan Kwan Hei, Anthea

Audit Committee

Professor Wong Sook Leung, Joshua
Mr. Murase Hiroshi
Mr. Leung Yu Ming, Steven

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Legal Advisers

Mallesons Stephen Jaques

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited
UFJ Bank Limited
KBC Bank
Industrial and Commercial Bank of China (Asia) Limited
Bank of America (Asia) Ltd.
Standard Chartered Bank (HK) Ltd.
Mizuho Corporate Bank, Ltd.
Wing Hang Bank, Ltd.

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

Units 1904-7
19th Floor
Chevalier Commercial Centre
8 Wang Hoi Road
Kowloon Bay
Kowloon
Hong Kong

Bermuda Principal Share Registrar

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Public Relations Consultant

Strategic Financial Relations Limited

Contacts

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Website: www.suga.com.hk
Stock code: 912



FINANCIAL HIGHLIGHTS

OPERATING RESULTS

| | 2005 (HK\$'000) | 2004 (HK\$'000) | 2003 (HK\$'000) (restated) |
|---|----------------------------|--------------------|----------------------------------|
| Turnover | 591,424 | 600,911 | 453,344 |
| Gross profit | 79,692 | 91,304 | 71,909 |
| Operating profit | 26,149 | 48,660 | 46,240* |
| Profit attributable to shareholders | 19,226 | 42,843 | 38,287* |
| Earnings per share – Basic (HK cents) | 8.5 | 19.6 | 21.6* |
| Interim dividend, paid, per share (HK cents) | 3.0 | 2.5 | 2.5 |
| Final dividend, proposed, per share (HK cents) | 0.35 | 3.0 | 2.5 |

FINANCIAL POSITION

| | | | |
|---------------------------------------|----------------|---------|---------|
| Shareholders' equity | 207,803 | 199,628 | 132,833 |
| Net current assets | 214,604 | 180,582 | 90,874 |
| Net debt | 66,812 | 34,223 | 24,271 |
| Capital expenditure | 16,246 | 13,373 | 17,162 |
| Net assets value per share (HK cents) | 91.2 | 88.3 | 66.4 |

FINANCIAL RATIOS

| | | | |
|--------------------------|--------------|-------|--------|
| Current ratio | 2.23 | 1.96 | 1.78 |
| Net debt to equity ratio | 32.2% | 17.1% | 18.2% |
| Inventory turnover days | 84 | 58 | 49 |
| Debtors turnover days | 111 | 90 | 62 |
| Return on average equity | 9.4% | 25.8% | 34.6%* |

* Include an one-off gain of HK\$9 million from the disposal of interests in a subsidiary.

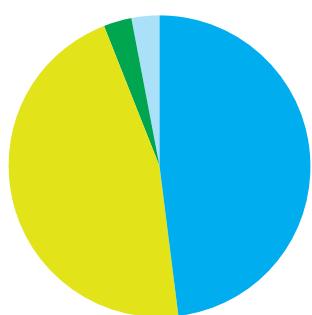
TURNOVER BY PRODUCT TYPE

| | For the year ended 31 March | | |
|--------------------------------|------------------------------------|------------------|----------|
| | 2005 HK\$'000 | 2004 HK\$'000 | % Change |
| Consumer Electronic Appliances | 283,111 | 216,623 | 30.7% |
| Telecommunication Products | 272,069 | 360,292 | (24.5)% |
| Digital A/V Products | 18,810 | 1,703 | 1,004.5% |
| Others | 17,434 | 22,293 | (21.8)% |
| Total | 591,424 | 600,911 | (1.6)% |

TURNOVER BY GEOGRAPHICAL SEGMENT

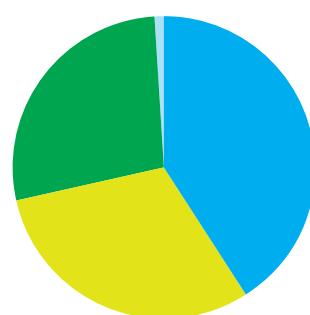
| | For the year ended 31 March | | |
|--|------------------------------------|------------------|----------|
| | 2005 HK\$'000 | 2004 HK\$'000 | % Change |
| The United States of America | 181,819 | 154,438 | 17.7% |
| Asia Pacific Region (excluding Mainland China) | 163,032 | 93,196 | 74.9% |
| Mainland China | 242,659 | 352,825 | (31.2)% |
| Europe | 3,914 | 452 | 765.9% |
| Total | 591,424 | 600,911 | (1.6)% |

Turnover by Product Type 2005



- 47.9% Consumer Electronic Appliances
- 46.0% Telecommunication Products
- 3.2% Digital A/V Products
- 2.9% Others

Turnover by Geographical Segment 2005



- 41.0% Mainland China
- 30.7% The United States of America
- 27.6% Asia Pacific Region (excluding Mainland China)
- 0.7% Europe

Buji Plants

Gross Floor Area: 520,000 sq.ft.

Products: Consumer Electronic
Telecommunication
Digital AV



Production Facility

Xi Xiang Plants

Gross Floor Area: 120,000 sq.ft.

Products: Networking



Huizhou Plants

Gross Floor Area: 110,000 sq.ft.

Products: Moulds and Plastic Parts



Systematic Management





CHAIRMAN'S STATEMENT

To our Shareholders

On behalf of the Board, I present the annual results of Suga International Holdings Limited (the "Company") and its subsidiaries ("SUGA" or the "Group") for the fiscal year ended 31 March 2005 ("fiscal year 2005") as well as our vision for the future.

Although fiscal year 2005 fell short of our expectations in both sales turnover and profits, we managed to broaden our customer base and diversify our product portfolio. As part of our long-term business strategy and taking the competitive environment into consideration, we increased our research and development and sales and marketing expenditures to put SUGA in a better position to capture future opportunities. As a result, our net profit for the year was depressed. However, we are highly confident that SUGA will benefit from this strategic decision in the form of increased sales and profits in the future.

FINANCIAL PERFORMANCE

The Group recorded sales turnover of approximately HK\$591 million for fiscal year 2005, a decrease of 1.6% compared with the previous year. This slight decrease in annual turnover was the net result of the drop in telecommunication products sales offset almost entirely by sales growth of consumer electronic appliances and new sales from digital A/V products.

During fiscal year 2005, the Group's gross profit decreased by 12.7% to HK\$79.7 million while gross profit margin decreased to 13.5% from 15.2% in fiscal year 2004. A temporary slowdown in sales of networking products created idle production capacity during the year, which added to overhead costs. In addition, rising raw material costs and pricing pressure on digital A/V products weighed down overall product profitability.

In response to lower than expected sales turnover and rising costs of materials, SUGA tightened considerably certain variable overhead expenses during fiscal year 2005. However, in order to enhance competitiveness and build a diversified product portfolio, SUGA continued to expand research and development and marketing operations for its new digital A/V products business. Research and development expenses were increased to HK\$4.6 million from HK\$1.0 million last year, while distribution and selling expenses rose to HK\$16.7 million from HK\$11.3 million.

Net profit for the year was HK\$19.2 million, as compared to HK\$42.8 million in fiscal year 2004. This change was mainly attributable to (i) a HK\$11.6 million reduction in gross profits, (ii) a HK\$3.5 million increase in product research and development expenditure, and (iii) a HK\$5.4 million increase in marketing expenditure. Although our investments in new product development and marketing for digital A/V products had negatively impacted profitability in the last fiscal year, we believe this investment will drive future growth for the Group and create long-term shareholder value.



CHAIRMAN'S STATEMENT

DIVIDENDS

The Directors recommend the payment of a final dividend of HK0.35 cent per share (fiscal year 2004: HK3.0 cents per share) to shareholders whose names appear on the register of members of the Company on 26 August 2005. Together with the interim dividend of HK3.0 cents per share (fiscal year 2004: HK2.5 cents per share), the total dividend for the year will amount to HK3.35 cents per share (fiscal year 2004: HK5.5 cents per share). The final dividend will be payable on or before 8 September 2005.

BUSINESS OVERVIEW

Telecommunication Products

The sales turnover from telecommunication products business fell 24.5% from that in the prior year to HK\$272 million, accounting for 46.0% of the Group's total turnover. The decline was mainly due to one of our largest networking customers changing its product distribution strategy, which led to a temporary reduction of production in the second half of the fiscal year. Shipments for this customer have now returned to normal. In the first quarter of fiscal year 2006, orders for these networking products increased significantly, with sales growing by 25.0% over the last quarter of fiscal year 2005, and we expect them to continue to grow steadily.

During the past year our telecommunication products business captured new orders from NEC of Japan for both key telephone systems and voice-over-internet-protocol ("VoIP") phones. Orders from NEC had grown since the first shipment in July 2004. We are confident of achieving further growth for the telecommunication products business segment in the coming year.

Consumer Electronic Appliances

Sales from the consumer electronic appliances business recorded growth of 30.7% over the previous year to reach HK\$283 million, accounting for 47.9% of the Group's total sales.

Sales of pet training devices maintained steady organic growth and satisfactory gross margins during the year. With over 10 years of experience in developing and manufacturing pet training devices, SUGA is the only Hong Kong-based Electronic Manufacturing Services ("EMS") provider with extensive experience in producing such unique products. Building on our long-standing relationship with our US partner, who is the largest supplier in the US pet training device market, SUGA is confident of maintaining its position as the leading EMS provider in the pet training device industry.

In fiscal year 2005, we also secured a US customer who designs high definition video security products. With security a growing concern among different industries, the Group's video security products have great development potential. This video security product is complex in both its features and manufacturing processes and requires advanced design and manufacturing capabilities. SUGA was selected as the manufacturing partner because of its capabilities in designing and manufacturing high-precision and affordable products.

BUSINESS OVERVIEW (Continued)

Digital Audio-Visual ("A/V") Products

In operation for less than a year, this segment generated sales turnover of HK\$19 million and accounted for 3.2% of the Group's turnover. This segment mainly comprises products developed by the Group as well as trading products sourced for resale. Digital A/V products faced intense competition and rising raw materials costs during the year, pushing down product prices and margins.

We launched a SUGA designed and developed portable MPEG-4 player to overseas markets during the year, but the market growth was lower than expected. Market analysts believe MPEG-4 players will gain popularity as more online digital entertainment content becomes legally available for download. Apart from MPEG-4, we also launched our smallest color MP3 in Hong Kong, which was pretty well received by retailers.

We introduced the "Nachus" brand with a sales and distribution network spanning Hong Kong, Singapore and during the first half of fiscal year 2006, China. Supported by major retail channels, the Nachus brand enjoyed widened distribution and gained gradual market recognition. Greater market recognition of the brand and our effective distribution and marketing strategy in the ODM market are expected to generate more business at a better profit margin for the Group in the future. SUGA will continue its commitment to developing more innovative digital A/V products to overcome challenges and capitalize on opportunities in this fast changing market.

ACQUISITION

In September 2004, the Group acquired Precise Computer Tooling Company Limited ("Precise") in Huizhou, Guangdong, at a consideration of HK\$8.5 million. Precise specializes in the production of moulds and plastic components. The acquisition provides SUGA with the opportunity to vertically integrate its manufacturing processes. Apart from ensuring the stable supply of plastic parts for production and better control of production cost and quality, vertical integration of its production also allows the Group to maximize overall profitability and operational efficiency. Plastic parts produced for internal use accounted for approximately 27% of Precise's total production. Furthermore, Precise also has an established customer base, which is now contributing to the Group sales turnover. In five months since it joined the Group, Precise contributed additional revenue of HK\$19 million to the Group, or 3.2% of the Group's total turnover for fiscal year 2005. Its contribution to the Group is expected to increase significantly in fiscal year 2006.

SYNDICATED LOAN AND REVOLVING CREDIT FACILITY

To finance SUGA's capital expenditure and working capital requirements for future growth as well as to lower funding costs, the Group signed a three-year HK\$120 million syndicated loan and revolving credit facility in September 2004 with DBS Bank Limited as the arranger. This loan facility is more than adequate to finance our continued growth, and we have ample cash and loan facilities available to finance future growth.



CHAIRMAN'S STATEMENT

LOOKING AHEAD

We are positive about the Group's performance for the coming year. SUGA will continue to leverage its well-developed manufacturing capabilities, research and development expertise, logistic planning, and distribution network to offer top quality products to our customers.

In the telecommunication products business, networking products have resumed growth and will be one of the Group's major revenue contributors in the coming year. Through efforts to improve production efficiency, we expect the gross profit margin of the segment to improve. In addition, the VoIP phone is gaining worldwide popularity and, based on orders already received, we see steady growth in sales.

The consumer electronic appliances business is expected to continue to provide stable sales and profits to the Group. We are launching a series of deluxe model of pet training devices to our US partners in the first half of fiscal year 2006. In addition we are studying an exciting opportunity of possibly working with our US partner to expand their marketing footprint into the Asian pet training devices market. We can leverage our extensive experience in the China market to assist our US partner in growing sales and production.

In addition, orders for the Group's high definition video security product show good growth potential. The wide applications of this advanced security product are expected to draw a wide variety of major customers, such as banks and casinos. We are confident such business will not only boost our profits, but also our reputation for product innovation and manufacturing excellence.

The Group's digital A/V products business will launch a new product, a digital photo album, in August 2005 for a leading US electronics retailer. In addition to manufacturing the product, the Group was also in responsible for the product development. This strategy has allowed the Group to capture higher margins and further strengthen its relationship with this new customer. The Group's hard drive MP3 player, with an attractive appearance, advanced functions, and large memory, will hit the market in the first half of fiscal year 2006. As the digital A/V products business is still in its initial investment stage, we intend to inject more resources into research and development to establish a stronger foundation for future business growth. Nevertheless, the research and development expense will be less than 1.5% of the Group's total sales in a fiscal year.

The Precise acquisition completed last year enhanced the Group's vertical production capability and brought SUGA a new and stable revenue and profit source. The Group will capture a full year contribution from Precise in fiscal year 2006, and benefit from the diversified customer and revenue base it brings. Prior to the Precise acquisition, we increased our interest in Suga Networks Hong Kong Limited by 15% in November 2003, making it a wholly-owned subsidiary of the Group. This acquisition enabled us to capture the entire profit contribution from the networking product business. Both acquisitions generated handsome returns to the Group and demonstrated the management's capabilities and vision in acquiring new businesses. The Group will remain open to future merger and acquisition opportunities to accelerate growth.

LOOKING AHEAD (Continued)

As a value-added EMS provider, the Group is committed to ensuring that our production processes are environmentally friendly, thereby protecting both our workers and customers. The consumer electronic manufacturing processes are lead-free and comply with all relevant environmental standards as per respective customer's request. Our strict adherence to environment safety codes improved our competitiveness and demonstrated our commitment to employing the best manufacturing practices. Since many European customers see green manufacturing as a prerequisite in selecting their manufacturers, SUGA stands favourably in serving the needs of potential European customers.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Leung Yu Ming, Steven was appointed as the Group's Independent Non-executive Director effective from 27 September 2004. Mr. Leung is a certified practicing public accountant of CPA Australia and a fellow of the Association of Chartered Certified Accountants in the UK, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr. Leung is also a practicing certified public accountant in Hong Kong.

APPRECIATION

On behalf of SUGA, I would like to extend my sincere gratitude to our business associates, customers and shareholders for their support throughout the year. I would also like to thank our dedicated management team and committed staff for their hard work and continuous efforts over the years. While our results in the past year did not meet our expectations, we are confident that the efforts we made the past year had strengthened our foundation for future business growth. SUGA's management and staff are committed to growing sales turnover and profits to ensure rewarding future returns to all our shareholders.

NG Chi Ho

Chairman

Hong Kong, 25 July 2005

Understanding Customers' Requirements





MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Fiscal year 2005 was a difficult year for the Group especially the second half of the year. The Group's turnover recorded a slight decrease of 1.6% to HK\$591 million. The drop in net profit was more visible, from HK\$42.8 million last year to HK\$19.2 million this year, a decrease of 55.1%. It was the result of the significant drop in networking products sales and our increased investment in research and development and sales and marketing to brace us for future business growth.

Turnover

The Group's turnover for the year was HK\$591 million, representing a slight decrease of 1.6% from last year. The growth in sales of consumer electronic appliances and digital A/V products was offset by the decrease in sales of networking products.

The sales of consumer electronic appliances grew 30.7% to reach HK\$283 million, representing 47.9% of the Group's turnover. Pet training devices sales accounted for 57.9% of this segment's total sales for this year.

The sales of telecommunication products decreased by 24.5% to HK\$272 million for the year. This segment accounted for 46.0% of Group's turnover, down from 60.0% last year. The decrease in sales this year was primarily due to the substantial drop in networking products sales by 35.1% from last year. However, orders for networking products have picked up in the first quarter of fiscal year 2006 and a 25.0% growth in sales over the last quarter of fiscal year 2005 has been recorded.

Digital A/V products recorded sales of HK\$19 million for the year, representing 3.2% of the Group's turnover. Sales under the Group's own brand "Nachus" accounted for 84% of this segment's total sales while ODM sales of the Group's self-developed products accounted for 16%. The Group expects both Nachus brand sales and ODM sales of self-developed products to grow substantially in fiscal year 2006 and their contributions to this segment become more balanced.

Office automation products, comprising mainly LCD projectors, recorded further decline in sales during the year. As this business segment is no longer representative for the Group's core operation, it has been grouped under the "Others" category.

Geographically, Mainland China will remain as the major market of the Group. However, sales to Mainland China decreased by 31.2% this year to HK\$243 million, representing 41.0% of the Group's turnover, down from 58.7% last year. Sales to the United States of America increased by 17.7% to HK\$182 million, representing 30.7% of the Group's turnover, up from 25.7% last year.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Profit Attributable to Shareholders

The Group's gross profit decreased by 12.7% to HK\$79.7 million from HK\$91.3 million last year while gross profit margin decreased from 15.2% to 13.5%. The decrease in gross profit was mainly attributable to the substantial drop of networking products sales and increase in production costs. During the year, networking products sales decreased by HK\$118 million, a drop of 35.1% from last year's. As the fixed overhead for networking production could not be proportionately reduced, our gross profit margin was inevitably affected. In addition, in order to gain volume and market share for our "Nachus" brand products, we lowered our selling price of some of our digital A/V products during the year.

Profit from operations was HK\$26.1 million, compared with HK\$48.7 million last year. Total operating expenses increased by 25.6% to HK\$54.0 million from HK\$43.0 million last year, representing 9.1% of the Group's total sales. Research and development expenses increased from HK\$1.0 million to HK\$4.6 million, approximately 0.8% of the Group's sales. The increase in research and development expenses was mainly due to the Group setting up a research and development team in July 2004. With 13 engineers on board, the team is responsible for developing innovative new products for the Group. Selling and distribution expenses rose to HK\$16.7 million this year from HK\$11.3 million last year. The increase included about HK\$3.0 million for promoting our own brand "Nachus".

Finance costs increased to HK\$3.6 million from HK\$2.4 million last year as a result of the increase in bank borrowings. As the tax exemption period of Suga Networks Equipment (Shenzhen) Co., Ltd. expired during the year, taxation expense increased to HK\$2.6 million this year from HK\$2.3 million last year.

As a result of the above, net profit attributable to shareholders decreased to HK\$19.2 million from last year's HK\$42.8 million, representing a decrease of 55.1%.

INVESTMENT IN ASSOCIATED COMPANY

With a view to capture the growing opportunities in the electronic educational products market, the Group subscribed 3,000,000 ordinary shares of HK\$1 each at par in Modern Tech Limited ("Modern Tech"), representing 29.27% of the total issued share capital of Modern Tech. Modern Tech is engaged in the development and sale of electronic educational products. The key feature of these products is the application of "Advance Speech Technology enhancing language learning" technology. Modern Tech is still in a start up phase, the first product of Modern Tech will be launched to the market in July 2005. The management believes that the investment will generate handsome returns to the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, the Group's cash and bank balances amounted to HK\$70 million while net current assets were HK\$215 million. The current ratio as at 31 March 2005 was improved from 1.96 to 2.23.

Compared with last year's balances, the Group's inventories increased by 48% whereas trade receivables and trade payables decreased by 15% and 18% respectively. The substantial increase in inventories held at year-end was for catering the increased sale orders on hand and also the result of consolidation of the inventories of the newly acquired moulds and plastic components manufacturing company.

The Group's net bank borrowings as at balance sheet date was HK\$67 million as compared to HK\$34 million last year. Net gearing ratio, based on net borrowings to equity, was 32.2% (2004: 17.1%). Increase in bank borrowings was primarily a result of the increase in inventories held, investment and capital expenditure during the year.

As at 31 March 2005, the Group had aggregate banking facilities of approximately HK\$370 million (2004: HK\$252 million) from several banks for overdrafts, loans and trade financing, with an unused balance of approximately HK\$202 million (2004: HK\$112 million).

TREASURY POLICIES

The Group generally finances its operations by internally generated resources and banking facilities provided by its principal bankers in Hong Kong. Banking facilities of the Group include overdrafts, leasing, term loans and trust receipt loans, which are principally on the floating interest rates. Most of the Group's business transactions are denominated either in Hong Kong dollars, US dollars or Renminbi. The usual treasury policy of the Group is to manage significant currency exposure and minimize currency risk whenever it may have material impact to the Group.

PLEDGE OF ASSETS

As at 31 March 2005, the Group did not pledge any of its assets (2004: nil) as securities for generating banking facilities granted to the Group.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liability at the balance sheet date.

EMPLOYEES

As at 31 March 2005 the Group had approximately 2000 employees, of which 80 were based in Hong Kong, 3 in Singapore and the rest were mainly in the PRC. Competitive remuneration packages are structured to commensurate employees with reference to their individual job duties, qualification, performance and years of experience. In addition to salaries and other usual benefits like annual leave, medical insurance and provident fund, the Group also provides educational sponsorship subsidies, discretionary performance bonus and share options. A share option scheme was adopted on 17 September 2002 which is valid and effective for a period of 10 years from the adoption date, the details of which are specified in the Section "Share Option Scheme" on page 25.

Good
Quality - **SUGA**





DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTOR

Mr. NG Chi Ho, aged 55, is the founder, Chairman and Managing Director of the Group. He is responsible for the formulation of corporate strategy, strategic planning and development, and overall management of the Group. Mr. Ng has over 28 years of management experience in the electronics industry and has been a lecturer in electronic engineering at the Hong Kong Polytechnic University for 4 years. Mr. Ng holds a bachelor degree in science from the Chinese University of Hong Kong and a master of philosophy degree in computer engineering from the University of Hong Kong. He is also a chartered engineer and a fellow of the Institution of Electrical Engineers, UK. In addition, Mr. Ng is a Director of the Applied Research Council, the HKSAR Government, Vice Chairman of Hong Kong Electronic Industries Association Limited ("HKEIA") and the Chairman of the Technology and Application Sub-Committee of the HKEIA.

Mr. MA Fung On, aged 47, is the Deputy Chairman of the Group. Mr. Ma is responsible for the overall strategic planning and operation of sales and personnel and administration of the Group. Mr. Ma has worked with the Group for more than 12 years and has over 23 years of experience in the electronics industry. He graduated from the Hong Kong Polytechnic University with a higher diploma in electronic engineering.

Mr. WONG Wai Lik, Lamson, aged 41, is the Executive Director of the Group. He is in charge of the plastic division and the overall manufacturing operations of the Group. Mr. Wong graduated from the Hong Kong Polytechnic University with a higher diploma in production and industrial engineering. He joined the Group in 1992 and has over 18 years of experience in production operations and supervision.

NON-EXECUTIVE DIRECTOR

Mr. Kyle Arnold SHAW, Jr. aged 44, is a non-executive Director. Mr. Shaw is the Founding Partner and Managing Director of Shaw, Kwei & Partners, an independent private equity fund manager dedicated to investing in Asian businesses. Mr. Shaw has been actively involved in the Asian private equity industry for over 16 years in a variety of investment transactions in Hong Kong, Shanghai, Taipei, and Singapore. Prior to Shaw Kwei & Partners, Mr. Shaw was responsible for founding and managing private equity funds for both Security Pacific Asian Bank, during which time he was a founding shareholder and director of Flextronics International Ltd., and then Tudor Investment Corp. Mr. Shaw received a M.B.A. degree from the Wharton School of the University of Pennsylvania and a Bachelor of Science in Commerce from the University of Virginia.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. WONG Sook Leung, Joshua, aged 66, an independent non-executive Director. Mr. Wong is presently the Professor Emeritus of the Hong Kong Polytechnic University. He has over 33 years of working experience with tertiary educational institutions including 28 years with the Hong Kong Polytechnic University of which 6 years as the vice president, 2 years as the senior consultant and chair professor in electronic and information engineering department and 16 years as the head of electronic engineering department. Prior to joining the Hong Kong Polytechnic University, he was an associate professor of California State University at Los Angeles, the US from 1968 to 1974. In addition, he was the president of the Hong Kong Association for the Advancement of Science and Technology in 1988/89. Mr. Wong is currently Chairman of the Semiconductor Industries Group in Hong Kong. Mr. Wong obtained his bachelor degree of science in engineering from the University of Hong Kong and his doctor of philosophy degree from Leeds University, UK. He is also a chartered engineer, a fellow of the Institution of Electrical Engineers, UK and a fellow of the Hong Kong Institution of Engineers.



DIRECTORS AND SENIOR MANAGEMENT PROFILES

INDEPENDENT NON-EXECUTIVE DIRECTOR *(Continued)*

Mr. HIROSHI Murase, aged 67, is an independent non-executive Director. Mr. Murase is currently an adviser of Yamato International Inc., Japan. He has 40 years of working experience in Japanese corporations including 34 years with Mitsubishi Corporation, Japan, of which about 13 years he worked in management as a general manager or at higher levels. Mr. Murase also has 14 years' experience working outside Japan including 6 years as manager of the New York Office of Mitsubishi International Corporation, 4 years as general manager of the Foods Department of the London Office of Mitsubishi Corporation, and 4 years as president of Mitsubishi Corporation do Brazil, overseeing Mitsubishi Corporation's business in South America. In addition, Mr. Murase was the senior managing director of Asahimatsu Food Co. Limited from 1995 to 2000. Mr. Murase graduated from Kobe University, Japan with a bachelor degree in business administration.

Mr. LEUNG Yu Ming, Steven, aged 46, is an independent non-executive Director. Mr. Leung holds a master degree in Accounting from Charles Sturt University and a bachelor degree in social science from the Chinese University of Hong Kong. Mr. Leung is a certified practising accountant of CPA Australia and a fellow of The Association of Chartered Certified Accountants in the UK, the Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong respectively. Mr. Leung is also a practising certified public accountant in Hong Kong. Mr. Leung previously worked in Nomura International (Hong Kong) Limited as an Assistant Vice President in the International Finance and Corporate Finance Department. He commenced public practice in auditing and taxation since 1990. He is now the senior partner of W.S. Wong & Co., Certified Public Accountants. Mr. Leung has over 20 years of experience in accounting, taxation, financial management and corporate finance.

SENIOR MANAGEMENT

Mr. LEE Yiu Cheung, Alex, aged 48, is the Chief Financial Officer and Qualified Accountant of the Group. He is responsible for overseeing the corporate and financial matters of the Group. Mr. Lee is a practising certified public accountant in Hong Kong. He is also an associate member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Mr. Lee joined the Group in early 2005 and has over 25 years of experience in corporate finance, accounting and auditing. Before joining the Group, he worked for a blue chip listed company in Hong Kong for over 17 years in a senior executive position. Mr. Lee graduated from the Hong Kong Polytechnic University with a higher diploma in accountancy. Mr. Lee is the brother-in-law of Mr. Ng Chi Ho, the Chairman and Managing Director of the Group.

Ms. CHAN Kwan Hei, Anthea, aged 35, is the Financial Controller and the Company Secretary of the Group. She is responsible for the financial management and company secretarial functions of the Group. Ms. Chan holds a bachelor degree of business administration in professional accountancy from The Hong Kong Baptist University. She is an associate member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants, the UK. She joined the Group in 1992 and has over 13 years of experience in accounting, finance and company secretary.

Mr. KONG Ka Kong, Kenneth, aged 36, is the General Manager of the pet products division of the Group and is responsible for overseeing the overall operation of the division. He joined the Group in 1991 and has over 11 years of experience in the pet industry. Mr. Kong holds a diploma in management studies from the Hong Kong Polytechnic University.

SENIOR MANAGEMENT (Continued)

Ms. WONG Sin, Kathy, aged 35, is the General Manager of the networking products division of the Group and is responsible for overseeing the overall operation of the division. Ms. Wong graduated from the Mechanical Engineering Department of Tinjing University in the PRC. She joined the Group in 2002 and has over 12 years of experience in the electronics manufacturing industry.

Mr. YEUNG Wai Hung, Jimmy, aged 36, is the General Manager of the EMS division of the Group. Mr. Yeung joined the Group in 2002 and is responsible for the overall operation of the division. Mr. Yeung graduated from the Hong Kong Polytechnic University with a higher diploma in manufacturing engineering and has over 12 years of experience in electronics manufacturing industry.

Ms. DENG Hong, Maggie, aged 36, is the General Manager of the Singapore distribution division of the Group and is responsible for the sales and distribution of digital A/V products in Singapore. Ms. Deng holds an engineering bachelor degree in computer and applications from the National University of Defence Technology in the PRC and a diploma in management studies from the University of Hong Kong. She has over 14 years of sales experience in electronic products, particularly with rich experience in the markets of Singapore.

Ms. LAM Nga Yin, Irene, aged 32, is the Acting General Manager of the Hong Kong and Mainland China distribution division of the Group and is responsible for the sales and marketing of digital A/V products in Hong Kong and Mainland China. Ms. Lam obtained her bachelor of arts (honours) degree in Chinese language and literature from the Hong Kong Baptist University. She also holds a diploma in marketing from HKIM/HKU SPACE and postgraduate diploma in marketing from CIM/HKU SPACE. Prior joining the Group, she has over 7 years of experience in sales and marketing.

Mr. LIU Ji Feng, aged 36, is the General Manager of the trading business of the Group and is in charge of sales of office automation products of the Group. He joined the Group in 1994 and has over 13 years of sales experience in the electronics industry. Mr. Liu holds a bachelor degree in engineering from the National University of Defence Technology in the PRC.

Advanced *sugar* Technology





REPORT OF THE DIRECTORS

The Directors would like to present to the shareholders their report and the audited accounts of the Company and the Group for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its principal subsidiaries are engaged in the research and development, manufacture and sale of various electronic products. Details of the principal activities of the Group's subsidiaries are set out in note 15 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2005 are set out in the consolidated profit and loss account on page 35 of this annual report.

An interim dividend of HK3.0 cents per share was paid during the year. The Directors propose the payment of a final dividend of HK0.35 cent per share, together with the interim dividend paid, the total dividend for the year ended 31 March 2005 will amount to approximately HK\$7,636,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the note 27 to the accounts.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year are set out in notes 25 and 26 to the accounts respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 March 2005 calculated under Company Act of Bermuda amounted to HK\$65,769,000 (2004: HK\$71,807,000).

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem any of its shares during the year. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the year.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 13 to the accounts.



REPORT OF THE DIRECTORS

RETIREMENT SCHEMES

Particulars of retirement schemes are set out in note 32 to the accounts.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited accounts and reclassified as appropriate, is set out on page 74 of this annual report.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. NG Chi Ho (*Chairman*)

Mr. MA Fung On (*Deputy Chairman*)

Mr. WONG Wai Lik Lamson

Mr. FUNG Chi Leung Mark (Resigned on 1 November 2004)

Independent Non-executive Directors

Professor WONG Sook Leung Joshua

Mr. Murase HIROSHI

Mr. LEUNG Yu Ming Steven (Appointed on 27 September 2004)

Non-executive Director

Mr. Kyle Arnold SHAW, Jr.

At the forthcoming annual general meeting, Mr. Wong Wai Lik, Lamson will retire by rotation in accordance with bye-law 111 of the Company's Bye-laws and being eligible, offer himself for re-election.

Each of the non-executive Director and independent non-executive Directors is appointed for a term of one year.

Each of Mr. Ng Chi Ho and Mr. Wong Wai Lik, Lamson, all being executive Directors of the Company has entered into a service contract with the Company for an initial fixed term of three years commencing from 1 September 2002 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Mr. Ma Fung On, an executive Director, has entered into a service contract with the Company for a term of three years commencing from 1 April 2004. Save as disclosed above, none of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

SHARE OPTION SCHEME

The Company has a share option scheme adopted on 17 September 2002 (the "Share Option Scheme"), under which it may grant options to eligible participants (including Directors of the Company) to subscribe for shares in the Company.

Principal terms of the Share Option Scheme are as follows:-

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, Directors and other selected participants for their contributions to the Group and will also assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the growth of the Group.

2. Eligible participants of the Share Option Scheme

Eligible participants of the Share Option Scheme include:

- (a) any employee (whether full time or part time) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
- (b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of the Group or any Invested Entity;
- (d) any customer of the Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (g) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
- (h) any joint venture partner or counter-party to business operations or business arrangements of the Group.



REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (*Continued*)

3. Total number of Shares available for issue

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not exceed 10% of the issue share capital of the Company.

As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme was 22,794,000, which represented approximately 10% of the issued share capital of the Company.

4. Maximum entitlement of each participant

The total number of share issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Company to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being ("Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be subject to shareholders' approval in general meeting with such participant and his or her associates abstaining from voting.

Options granted to a substantial shareholder or an independent non-executive director in excess of 0.1% of the Company's share capital in issue for the time being and with a value in excess of HK\$5 million must be approved in advance by shareholders of the Company.

5. Basis of determining the subscription price

The subscription price for shares under the Share Option Scheme shall be a price determined by the Directors, but shall not less than the higher of (i) the closing price of shares as stated in the Stock Exchange's daily quotations on the date of the offer of grant; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

6. Exercise period of an option

An option may be exercised at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option.

7. Time and payment on acceptance

An option must be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

8. Minimum period and performance targets

Unless the Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to hold an option for any minimum period nor achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

SHARE OPTION SCHEME (*Continued*)

9. Remaining life of the Share Option Scheme

Subject to earlier termination by the Company in general meeting, the Share Option Scheme shall be valid and effective till 16 September 2012. After the expiry of such valid period, no further options will be offered or granted but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect.

Details of the share option movements during the year ended 31 March 2005 under the Scheme Option Scheme are as follows:-

| Category | Number of share options | | | | | | | |
|--------------------------------------|-----------------------------------|-------------------------------|---------------------------------|------------------------------|------------------------------------|-----------------------------|------------------|-------------------------|
| | Outstanding at 1 April 2004 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding at 31 March 2005 | Exercise price (HK\$) | Date of grant | Exercisable period |
| Directors | | | | | | | | |
| Mr. Ng Chi Ho | - | 2,000,000 | - | - | 2,000,000 | 1.23 | 7 May 2004 | 7 May 2004 – 6 May 2009 |
| Mr. Ma Fung On | 1,070,000 | - | - | - | 1,070,000 | 1.23 | 5 May 2003 | 5 May 2003 – 4 May 2008 |
| | - | 1,000,000 | - | - | 1,000,000 | 1.23 | 7 May 2004 | 7 May 2004 – 6 May 2009 |
| Mr. Fung Chi Leung, Mark (Note) | 1,800,000 | - | - | - | 1,800,000 | 1.23 | 5 May 2003 | 5 May 2003 – 4 May 2008 |
| Mr. Wong Wai Lik, Lamson | 1,300,000 | - | - | - | 1,300,000 | 1.23 | 5 May 2003 | 5 May 2003 – 4 May 2008 |
| | - | 1,000,000 | - | - | 1,000,000 | 1.23 | 7 May 2004 | 7 May 2004 – 6 May 2009 |
| Mr. Kyle Arnold Shaw, Jr. | - | 500,000 | - | - | 500,000 | 1.23 | 7 May 2004 | 7 May 2004 – 6 May 2009 |
| Professor Wong Sook Leung Joshua | - | 500,000 | - | - | 500,000 | 1.23 | 7 May 2004 | 7 May 2004 – 6 May 2009 |
| Mr. Murase Hiroshi | - | 500,000 | - | - | 500,000 | 1.23 | 7 May 2004 | 7 May 2004 – 6 May 2009 |
| Continuous contract employees | 3,940,000 | - | - | - | 3,940,000 | 1.23 | 5 May 2003 | 5 May 2003 – 4 May 2008 |
| | - | 800,000 | - | - | 800,000 | 1.23 | 7 May 2004 | 7 May 2004 – 6 May 2009 |
| | 8,110,000 | 6,300,000 | - | - | 14,410,000 | | | |

Note: Mr. Fung resigned as director of the Company on 1 November 2004.



REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Details of the share option movements during the period from 1 April 2005 to 25 July 2005 under the Scheme Option Scheme are as follows:-

| Category | Number of share options | | | | | | | |
|--------------------------------------|-----------------------------------|---------------------------------|-----------------------------------|--------------------------------|-----------------------------------|-----------------------------|------------------|-------------------------|
| | Outstanding at 1 April 2005 | Granted during the period | Exercised during the period | Lapsed during the period | Outstanding at 25 July 2005 | Exercise price (HK\$) | Date of grant | Exercisable period |
| Directors | | | | | | | | |
| Mr. Ng Chi Ho | 2,000,000 | - | - | - | 2,000,000 | 1.23 | 7 May 2004 | 7 May 2004 – 6 May 2009 |
| Mr. Ma Fung On | 1,070,000 | - | - | - | 1,070,000 | 1.23 | 5 May 2003 | 5 May 2003 – 4 May 2008 |
| | 1,000,000 | - | - | - | 1,000,000 | 1.23 | 7 May 2004 | 7 May 2004 – 6 May 2009 |
| Mr. Fung Chi Leung, Mark (Note) | 1,800,000 | - | - | - | 1,800,000 | 1.23 | 5 May 2003 | 5 May 2003 – 4 May 2008 |
| Mr. Wong Wai Lik, Lamson | 1,300,000 | - | - | - | 1,300,000 | 1.23 | 5 May 2003 | 5 May 2003 – 4 May 2008 |
| | 1,000,000 | - | - | - | 1,000,000 | 1.23 | 7 May 2004 | 7 May 2004 – 6 May 2009 |
| Mr. Kyle Arnold Shaw, Jr. | 500,000 | - | - | - | 500,000 | 1.23 | 7 May 2004 | 7 May 2004 – 6 May 2009 |
| Professor Wong Sook Leung Joshua | 500,000 | - | - | - | 500,000 | 1.23 | 7 May 2004 | 7 May 2004 – 6 May 2009 |
| Mr. Murase Hiroshi | 500,000 | - | - | - | 500,000 | 1.23 | 7 May 2004 | 7 May 2004 – 6 May 2009 |
| Continuous contract employees | 3,940,000 | - | - | 680,000 | 3,260,000 | 1.23 | 5 May 2003 | 5 May 2003 – 4 May 2008 |
| | 800,000 | - | - | - | 800,000 | 1.23 | 7 May 2004 | 7 May 2004 – 6 May 2009 |
| | 14,410,000 | - | - | 680,000 | 13,730,000 | | | |

Note: Mr. Fung resigned as director of the Company on 1 November 2004.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2005, the interests and the short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of the Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such positions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:-

(a) Interest in shares of the Company

| Name of Director | Number of ordinary share of HK\$0.10 each | | | | | | |
|---------------------------|---|------------------------|-------------------------|-------------------------|---------------------------|-----------------|-----------------|
| | Personal interests | Corporate interests | Family interests | Trust/similar interests | Persons acting in concert | Other interests | Total interests |
| Mr. Ng Chi Ho | 2,000,000 | 31,650,000 (Note 1) | 100,000,000 (Note 2) | - | - | - | 133,650,000 |
| Mr. Ma Fung On | 730,000 | 9,000,000 (Note 3) | - | - | - | - | 9,730,000 |
| Mr. Wong Wai Lik, Lamson | 500,000 | - | - | - | - | - | 500,000 |
| Mr. Kyle Arnold Shaw, Jr. | - | 500,000 (Note 4) | 50,000 (Note 5) | - | - | - | 550,000 |

Notes:

1. 31,650,000 shares are held by Billion Linkage Limited, the entire issued share capital of which is held by Mr. Ng Chi Ho and his spouse in equal share.
2. 100,000,000 shares are held by Superior View Inc., the entire issued share capital of which is ultimately held by Fidelitycorp Limited as the trustee of the C.H. Family Trust, the beneficiaries of which are the family members of Mr. Ng Chi Ho.
3. 9,000,000 shares are held by Global Class Enterprises Limited, the entire issued share capital of which is held by Mr. Ma Fung On.
4. 500,000 shares are held by Shaw, Kwei & Partners (Asia) Limited, the entire issued share capital of which is held by Mr. Kyle Arnold Shaw, Jr.
5. 50,000 shares are held by the spouse of Mr. Kyle Arnold Shaw, Jr.



REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES *(Continued)*

(b) Interests in shares of the Company's associated corporation

As at 31 March 2005, each of Mr. Ng Chi Ho and Mr. Ma Fung On held the following interests in the 4,000,000 non-voting deferred shares of HK\$1 each in Suga Electronics Limited.

| Name | Number of non-voting deferred shares |
|----------------------------|--------------------------------------|
| Ng Chi Ho <i>(Note 1)</i> | 3,680,000 |
| Ma Fung On <i>(Note 1)</i> | 240,000 |

Notes:

1. The 4,000,000 non-voting deferred shares in Suga Electronics Limited are held as to 80% by Essential Mix Enterprises Limited and 20% by Broadway Business Limited. Mr. Ng Chi Ho and Mr. Ma Fung On holds 92% and 6% interests in each of Essential Mix Enterprises Limited and Broadway Business Limited respectively.
2. These non-voting deferred shares have no voting rights, are not entitled to dividends, and are not entitled to any distributions upon winding up unless a sum of HK\$10,000,000,000 per ordinary share has been distributed to the holders of ordinary shares.

Save as disclosed above and under the "Share Option Scheme", none of the Directors of the Company have any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations as defined in the SFO as at 31 March 2005.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company was materially interested, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

In the opinion of the Directors, there is no such competing business as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which disclosure to the Company was required under the provisions of Divisions 2 and 3 of Part XV of the SFO and which record had been entered in the register kept by the Company pursuant to the section 336 of the SFO.

| Name of Shareholder | Number of ordinary shares | Percentage of issued shares |
|--|---------------------------|-----------------------------|
| Superior View Inc. <i>(Note 1)</i> | 100,000,000 | 43.87% |
| Billion Linkage Limited <i>(Note 2)</i> | 31,650,000 | 13.89% |
| Shaw, Kwei & Partners (Asia) Limited <i>(Note 3)</i> | 12,000,000 | 5.26% |

SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

1. The entire issued share capital of Superior View Inc. is ultimately held by Fidelitycorp Limited as the trustee of the C.H. Family Trust, the beneficiaries of which are the family members of Mr. Ng Chi Ho.
2. The entire issued share capital of Billion Linkage Limited is held by Mr. Ng Chi Ho and his spouse in equal share and as such, Mr. Ng is deemed to be interested in all the shares held by Billion Linkage Limited under the SDI Ordinance.
3. The interests in the 11,500,000 shares are held by Shaw, Kwei & Partners (Asia) Limited as a general partner of the Asian Value Investment Fund L.P. The entire issued share capital of Shaw, Kwei & Partners (Asia) Limited is held by Mr. Kyle Arnold Shaw, Jr.

Save as disclosed above, as far as is known to the Directors, there is no person, other than the Directors and chief executives of the Company, who has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision 2 and 3 of Part XV of the SFO as at 31 March 2005.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

CONTINUING OBLIGATION UNDER THE LISTING RULES

Advance to an Entity

In accordance with Rule 13.13 of the Listing Rules, an announcement was made on 24 June 2004 disclosing the details of trade receivables (the "Trade Receivables") due from Beijing Harbour Networks Limited ("BHNL") to the members of the Group as at 31 March 2004 which exceeds 8% of the total market capitalization of the Company as at that date.

As at 31 March 2005, the circumstances giving rise to the disclosure under Rule 13.13 continued to exist. In accordance with Rule 13.20 of the Listing Rules, details of the relevant Trade Receivables due from BHNL to the Group as at 31 March 2005 are as follows:—

As at 31 March 2005, there were 227,940,000 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$1.04 per share as stated in the Stock Exchange's daily quotation sheets for the trading days between 22 March 2005 and 30 March 2005 (both days inclusive), being the five business days immediately preceding 31 March 2005, the market capitalization of the Company was approximately HK\$237,058,000 as at 31 March 2005. The Trade Receivables due to the Group from BHNL amounted to approximately HK\$65,002,000 as at 31 March 2005. The Trade Receivables were resulted from sales to BHNL by the Group in its ordinary course of trading business and on normal commercial terms, which are unsecured, interest rate free and with payment terms of 105 days, and represented approximately 27% of the total market capitalization as at 31 March 2005.



REPORT OF THE DIRECTORS

CONTINUING OBLIGATION UNDER THE LISTING RULES *(Continued)*

Loan Agreement with covenants relating to specific performance of the controlling shareholder

In accordance with Rule 13.18 of the Listing Rules, an announcement was made on 24 September 2004 disclosing the details of the facility agreement entered by Suga Electronics Limited and Suga Networks Hong Kong Limited (as borrowers) and P&S Macao Commercial Offshore Limited and the Company (as guarantors), all are wholly owned subsidiaries of the Company, with a syndicate of banks in respect of an unsecured loan facility of up to HK\$120,000,000 (the "Facility") notwithstanding specific performance obligation imposed on the controlling shareholder of the Group.

As at 31 March 2005, the circumstances giving rise to the disclosure under Rule 13.18 continued to exist. In accordance with Rule 13.21 of the Listing Rules, details of the facility agreement and the relevant covenants on the controlling shareholder of the Group as at 31 March 2005 are as follows:-

The Facility comprises a HK\$100,000,000 3-year term loan tranche and a HK\$20,000,000 3-year revolving credit facility tranche. The purpose of the Facility is to finance the capital expenditure requirements and the working capital requirements of the Company and/or its subsidiaries.

Under the Facility Agreement, it will be an event of default if Mr. Ng Chi Ho ("Mr. Ng"), his family members and/or C.H. Family Trust (collectively the Controlling Shareholders (as defined in the Listing Rules) of the Company) together cease to be the single largest shareholder of the Company, to beneficially own (directly or indirectly) at least 45% (in aggregate) of the issued share capital of the Company or to maintain management control of the Company. It will also be an event of default if Mr. Ng ceases to be the chairman of the Company or to be actively involved in the management and business of the Group. If any of the above events occurs, the Facility may become due and payable on demand.

As at 31 March 2005, Mr. Ng, his family members and C.H. Family Trust together beneficially own (directly or indirectly) approximately 58.63% of the issued share capital of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's largest customer for the year accounted for approximately 37.0% of the Group's total turnover and the five largest customers accounted for approximately 87.8% of the Group's total turnover. In addition, the largest supplier of the Group accounted for approximately 12.2% of the Group's purchases while the five largest suppliers of the Group accounted for approximately 27.6% of the Group's total purchases.

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the company's share capital) had any interest in the major suppliers or customers noted above.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its code of conduct regarding the directors' securities transactions. Having made specific enquiry with all Directors, the Company confirmed that all Directors have complied with the required standard set out in Appendix 10 to the Listing Rules.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, which was in force prior to 1 January 2005.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 13.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there was sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors of the Company. The audit committee had reviewed with the management the accounting principles and practices adopted by the Group and discussed, among other things, the internal control and financial reporting matters including the audited financial statements of the Group for the year ended 31 March 2005.

AUDITORS

The accounts for the year have been audited by PricewaterhouseCoopers who retired and, being eligible, offered themselves for re-appointment.

On behalf of the Board

Suga International Holdings Limited

NG Chi Ho

Chairman

Hong Kong, 25 July 2005



AUDITORS' REPORT

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF SUGA INTERNATIONAL HOLDINGS LIMITED (Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 35 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

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

Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 March 2005 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 July 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2005

| | Note | 2005 HK\$'000 | 2004 HK\$'000 |
|-------------------------------------|------|--------------------|------------------|
| Turnover | 3 | 591,424 | 600,911 |
| Cost of sales | | (511,732) | (509,607) |
| Gross profit | | 79,692 | 91,304 |
| Interest income | 3 | 454 | 343 |
| Research and development costs | | (4,569) | (1,023) |
| Distribution and selling expenses | | (16,663) | (11,261) |
| General and administrative expenses | | (32,765) | (30,703) |
| Operating profit | 5 | 26,149 | 48,660 |
| Finance costs | 6 | (3,599) | (2,378) |
| Share of loss of an associate | | (740) | – |
| Profit before taxation | | 21,810 | 46,282 |
| Taxation | 7 | (2,593) | (2,376) |
| Profit after taxation | | 19,217 | 43,906 |
| Minority interests | | 9 | (1,063) |
| Profit attributable to shareholders | 10 | 19,226 | 42,843 |
| Dividends | 11 | 7,636 | 12,414 |
| Earnings per share | 12 | | |
| – Basic | | HK8.5 cents | HK19.6 cents |
| – Diluted | | HK8.5 cents | HK19.5 cents |

BALANCE SHEETS

AS AT 31 MARCH 2005

| | Note | Consolidated 2005 HK\$'000 | 2004 HK\$'000 | Company 2005 HK\$'000 | 2004 HK\$'000 |
|--|------|----------------------------------|------------------|-----------------------------|------------------|
| Non-current assets | | | | | |
| Property, plant and equipment | 13 | 80,369 | 66,598 | — | — |
| Negative goodwill/goodwill | 14 | (9,543) | (9,263) | — | — |
| Deferred development costs | 14 | 1,226 | 1,333 | — | — |
| Investment in subsidiaries | 15 | — | — | 140,846 | 145,242 |
| Interest in an associate | 16 | 2,260 | — | — | — |
| Unlisted investments | 17 | — | 3,810 | — | — |
| Deferred tax assets | 23 | 2,515 | 412 | — | — |
| Total non-current assets | | 76,827 | 62,890 | 140,846 | 145,242 |
| Current assets | | | | | |
| Inventories | 18 | 140,391 | 95,184 | — | — |
| Trade receivables | 19 | 165,472 | 195,546 | — | — |
| Prepayments, deposits and other receivables | | 9,570 | 12,090 | 152 | 81 |
| Unlisted investments | 17 | 3,810 | — | — | — |
| Cash and bank deposits | 20 | 70,407 | 66,150 | 1,082 | 263 |
| Total current assets | | 389,650 | 368,970 | 1,234 | 344 |
| Current liabilities | | | | | |
| Short-term bank loans, secured | | 1,523 | 41,826 | — | — |
| Current portion of long-term bank loans | 21 | 53,333 | 16,485 | — | — |
| Trade payables | 22 | 95,119 | 115,371 | — | — |
| Accruals and other payables | | 10,619 | 4,637 | 2 | 10 |
| Obligations under finance leases – current portion | 24 | 3,926 | 2,967 | — | — |
| Taxation payable | | 10,526 | 7,102 | — | — |
| Total current liabilities | | 175,046 | 188,388 | 2 | 10 |
| Net current assets | | 214,604 | 180,582 | 1,232 | 334 |
| Total assets less current liabilities | | 291,431 | 243,472 | 142,078 | 145,576 |
| Financed by: | | | | | |
| Share capital | 25 | 22,794 | 22,594 | 22,794 | 22,594 |
| Other reserves | 27 | 66,559 | 64,194 | 118,387 | 116,047 |
| Retained profit | 27 | 117,652 | 106,062 | 99 | 157 |
| Proposed dividend | 27 | 798 | 6,778 | 798 | 6,778 |
| Shareholders' funds | | 207,803 | 199,628 | 142,078 | 145,576 |
| Non-current liabilities | | | | | |
| Long-term bank loans | 21 | 77,292 | 35,522 | — | — |
| Obligations under finance leases | 24 | 1,145 | 3,573 | — | — |
| Deferred tax liabilities | 23 | 5,191 | 4,749 | — | — |
| Total non-current liabilities | | 83,628 | 43,844 | — | — |
| | | 291,431 | 243,472 | 142,078 | 145,576 |

NG Chi Ho
CHAIRMAN

MA Fung On
DEPUTY CHAIRMAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2005

| | Note | 2005 HK\$'000 | 2004 HK\$'000 |
|--|-------|------------------|------------------|
| Total equity at 1 April | | 199,628 | 132,833 |
| Exchange differences arising on translation of the accounts of a foreign subsidiary and net gain not recognised in the profit and loss account | | 25 | – |
| Profit for the year | | 19,226 | 42,843 |
| Dividends | | (13,616) | (11,169) |
| Issue of shares for cash | 25(a) | – | 28,000 |
| Share issue expenses | 25(a) | – | (671) |
| Issue of shares on acquisition of additional interests in a subsidiary | 25(b) | – | 2,700 |
| Issue of shares on acquisition of subsidiaries | 25(c) | 2,540 | – |
| Issue of shares upon exercise of share options | 26 | – | 5,092 |
| Total equity at 31 March | | 207,803 | 199,628 |



CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2005

| | Note | 2005 HK\$'000 | 2004 HK\$'000 |
|---|-------|------------------|------------------|
| Net cash generated from/(used in) operations | 28(a) | 11,178 | (12,223) |
| Hong Kong profits tax paid | | (750) | (4,075) |
| PRC enterprise income tax paid | | (443) | (278) |
| Net cash generated from /(used in) operating activities | | 9,985 | (16,576) |
| ----- | ----- | ----- | ----- |
| Investing activities | | | |
| Purchase of fixed assets | | (15,547) | (11,559) |
| Proceeds from disposal of fixed assets | | 21 | – |
| Payment of development costs | | (414) | (1,814) |
| Investment in an associate | | (3,000) | – |
| Acquisition of a subsidiary | 28(c) | (3,205) | – |
| Proceeds on disposal of other investments | | – | 780 |
| Interest received | | 454 | 343 |
| Net cash used in investing activities | | (21,691) | (12,250) |
| ----- | ----- | ----- | ----- |
| Net cash used before financing activities | | (11,706) | (28,826) |
| ----- | ----- | ----- | ----- |
| Financing activities | 28(b) | | |
| Issue of ordinary shares | | – | 33,092 |
| Share issuance expenses | | – | (671) |
| Contribution from minority shareholder of a subsidiary | | 9 | – |
| New long-term bank loans raised | | 110,000 | 53,000 |
| Repayment of long-term bank loans | | (31,382) | (6,270) |
| Repayment of capital element of finance lease obligations | | (3,950) | (2,842) |
| Interest element of finance lease payments | | (280) | (126) |
| (Decrease)/increase in short-term bank loans | | (41,524) | 4,036 |
| Interest paid | | (3,319) | (2,252) |
| Dividends paid | | (13,616) | (11,169) |
| Net cash generated from financing activities | | 15,938 | 66,798 |
| ----- | ----- | ----- | ----- |
| Increase in cash and cash equivalents | | 4,232 | 37,972 |
| Effect of foreign exchange rate changes | | 25 | – |
| Cash and cash equivalents, beginning of year | | 66,150 | 28,178 |
| ----- | ----- | ----- | ----- |
| Cash and cash equivalents, end of year | 28(d) | 70,407 | 66,150 |

NOTES TO THE ACCOUNTS

1. ORGANISATION AND OPERATIONS

Suga International Holdings Limited ("the Company") was incorporated as an exempted company with limited liability in Bermuda on 28 September 2001. The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since 18 September 2002.

The Company is an investment holding company. Its subsidiaries and associated companies are principally engaged in the research and development, manufacturing and sales of electronic products.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.



NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Group accounting (Continued)

(i) Consolidation (Continued)

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

(ii) Associated company

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the result of associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated company; unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

(iii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Group accounting (Continued)

(iii) Translation of foreign currencies (Continued)

The balance sheet of subsidiaries and associated company expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) Intangibles

(i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life of nineteen years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill not exceeding the fair values of the non-monetary assets acquired is recognised in the profit and loss account over its estimated useful life of 20 years. Negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

(ii) Research and development costs

Research expenditures are written off as incurred. Development expenditures are charged against profit and loss account in the period incurred except for those incurred for specific projects which are deferred where recoverability can be foreseen with reasonable assurance and which comply with the following criteria: (i) the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) there is an intention to produce and market, or use, the product or process; (iv) the ability to produce or use the product or process can be demonstrated; (v) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness can be demonstrated; and (vi) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process. Capitalised development expenditures are amortised on a straight-line basis over the period in which the related products are expected to be sold, starting from the commencement of sales.



NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Intangibles (Continued)

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(d) Property, plant and equipment

Property, plant and equipment, comprising leasehold land and buildings, leasehold improvements, plant and machinery, and furniture and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

(i) Depreciation

Leasehold land is depreciated over the period of leases. Property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|-------------------------|------|
| Leasehold land | 2.5% |
| Buildings | 2.5% |
| Leasehold improvements | 20% |
| Plant and machinery | 20% |
| Furniture and equipment | 20% |

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to its normal working condition to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(ii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to purchase of assets are deducted from the carrying amount of the assets. The grant is recognised as income over the life of a depreciable/amortisable asset by way of a reduced depreciation/amortisation charge.

(f) Assets under leases

(i) 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 or 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 non-current liabilities. The finance charges are charged to the profit and loss account over the lease periods.

A finance lease gives rise to depreciation expense for the asset as well as finance cost for each accounting period. The depreciation policy for leased assets is the same as that for depreciable assets that are owned.

(ii) 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 profit and loss account on a straight-line basis over the lease periods.

(g) Unlisted investments

Unlisted investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of these investments are recognised in the profit and loss account. Profits or losses on disposal of these investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(h) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate portion of production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.



NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(l) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plans

Provisions for bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Pension obligations

The Group operates a number of defined contribution plans, the assets of which are held in separate trustee – administered funds. The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

(iv) Equity compensation benefits

Share options are granted to certain directors and employees. No compensation cost is recognised in the profit and loss account in connection with share options granted. When the share options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Deferred taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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 taxation is provided on temporary differences arising on investments in subsidiaries and associated company, 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.

(n) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(o) Turnover and revenue recognition

Turnover represents (i) the net invoiced value of merchandise sold (excluding value-added tax) after allowances for returns and discounts and (ii) contract processing fees.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the merchandise is shipped and title has passed. Contract processing fees are recognised when the related services are rendered. Interest income is recognised on a time proportion basis that takes into account the effective yield on the assets.



NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) 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 profit and loss account in the year in which they are incurred.

(q) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment assets consist primarily of property, plant and equipment, inventories and receivables, and mainly exclude operating cash, deferred tax assets, and other investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and deferred development expenditure.

In respect of geographical segment reporting, sales are determined on the basis of the location of customer. Total assets and capital expenditure are where the assets are located.

3. TURNOVER AND REVENUE

The Group is principally engaged in the research and development, manufacture and sales of electronic products.

Revenues recognised during the year are as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Sales of electronic products | | |
| – consumer electronic appliances | 283,111 | 216,623 |
| – telecommunication products | 272,069 | 360,292 |
| – digital audio-visual (A/V) products | 18,810 | 1,703 |
| – others | 17,434 | 22,293 |
| Total turnover | 591,424 | 600,911 |
| Other revenue | | |
| – Interest income | 454 | 343 |
| Total revenue | 591,878 | 601,254 |

4. SEGMENT INFORMATION

(a) Primary reporting format – business segments:

The Group has categorised its business segment by product types into consumer electronic appliances, telecommunication products, digital A/V products and others. An analysis of the Group's segment information by business segment is set out as follows:

| | 2005 | | | | | |
|--|--|--|-------------------------------------|--------------------|--------------------------|-------------------|
| | Consumer electronic appliances HK\$'000 | Telecom- munication products HK\$'000 | Digital A/V products HK\$'000 | Others HK\$'000 | Eliminations HK\$'000 | Total HK\$'000 |
| Turnover | 283,111 | 272,069 | 18,810 | 17,434 | - | 591,424 |
| Inter-segment sales | 3,077 | - | - | - | (3,077) | - |
| | 286,188 | 272,069 | 18,810 | 17,434 | (3,077) | 591,424 |
| OPERATING RESULTS | | | | | | |
| Operating profit/(loss) | 24,751 | 11,806 | (13,401) | 2,785 | (246) | 25,695 |
| Interest income | | | | | | 454 |
| Interest expense | | | | | | (3,599) |
| Taxation | | | | | | (2,593) |
| Share of loss of an associate | | | | | | (740) |
| Minority interests | | | | | | 9 |
| Profit attributable to shareholders | | | | | | 19,226 |
| Segment assets | 215,613 | 149,599 | 5,851 | 6,852 | - | 377,915 |
| Unallocated assets | | | | | | 88,562 |
| | | | | | | 466,477 |
| Segment liabilities | 60,352 | 43,319 | 1,311 | 756 | - | 105,738 |
| Unallocated liabilities | | | | | | 152,936 |
| | | | | | | 258,674 |
| Other information | | | | | | |
| Depreciation and amortisation | 6,654 | 6,535 | 587 | 87 | - | 13,863 |
| Capital expenditures | 8,302 | 6,819 | 1,072 | 53 | - | 16,246 |



NOTES TO THE ACCOUNTS

4. SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments: (Continued)

| | 2004 | | | | |
|--|--|--|-------------------------------------|--------------------|-------------------|
| | Consumer electronic appliances HK\$'000 | Telecom- munication products HK\$'000 | Digital A/V products HK\$'000 | Others HK\$'000 | Total HK\$'000 |
| Turnover | 216,623 | 360,292 | 1,703 | 22,293 | <u>600,911</u> |
| OPERATING RESULTS | | | | | |
| Operating profit/(loss) | 21,270 | 26,883 | (2,306) | 2,470 | <u>48,317</u> |
| Interest income | | | | | 343 |
| Interest expense | | | | | (2,378) |
| Taxation | | | | | (2,376) |
| Minority interests | | | | | <u>(1,063)</u> |
| Profit attributable to shareholders | | | | | <u>42,843</u> |
| Segment assets | 117,099 | 213,843 | 7,019 | 11,437 | 349,398 |
| Unallocated assets | | | | | <u>82,462</u> |
| | | | | | <u>431,860</u> |
| Segment liabilities | 20,383 | 96,434 | 2,115 | 1,076 | 120,008 |
| Unallocated liabilities | | | | | <u>112,224</u> |
| | | | | | <u>232,232</u> |
| Other information | | | | | |
| Depreciation and amortisation | 4,182 | 2,808 | 8 | 158 | 7,156 |
| Capital expenditures | 9,491 | 3,525 | 73 | 284 | <u>13,373</u> |

There were no sales or other transactions between the business segments during the year ended 31 March 2004.

4. SEGMENT INFORMATION (Continued)

(b) Secondary reporting format – geographical segments:

An analysis of the Group's segment information by geographical segments is set out as follows:

(i) Analysis by turnover and segment results – by location of customers

| | 2005 | | 2004 | |
|--|----------------|----------------|----------|----------|
| | Segment | | Turnover | Segment |
| | Turnover | results | | HK\$'000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| The United States of America | 181,819 | 22,489 | 154,438 | 20,740 |
| Asia Pacific region (excluding Mainland China) | 163,032 | (9,777) | 93,196 | 5,026 |
| Mainland China | 242,659 | 12,948 | 352,825 | 22,536 |
| Europe | 3,914 | 35 | 452 | 15 |
| | 591,424 | 25,695 | 600,911 | 48,317 |

(ii) Analysis by segment assets and capital expenditure – by location of assets

| | 2005 | | 2004 | |
|----------------|----------------|---------------|----------|-------------|
| | Segment | | Capital | Segment |
| | assets | expenditure | assets | expenditure |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 246,063 | 3,592 | 137,716 | 5,693 |
| Mainland China | 218,380 | 12,550 | 294,144 | 7,680 |
| Singapore | 2,034 | 104 | – | – |
| | 466,477 | 16,246 | 431,860 | 13,373 |



NOTES TO THE ACCOUNTS

5. OPERATING PROFIT

Operating profit is stated after charging and crediting the following:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Charging | | |
| Cost of inventories sold | 479,518 | 495,094 |
| Depreciation of property, plant and equipment | | |
| – owned assets | 10,903 | 5,311 |
| – assets held under finance leases | 3,004 | 2,374 |
| Loss on disposal of property, plant and equipment | – | 31 |
| Operating lease rental of premises | 2,420 | 1,506 |
| Staff costs (Note 8) | 40,192 | 26,362 |
| Provision for bad and doubtful debts | 200 | 481 |
| Provision for obsolete and slow-moving inventories | 2,232 | – |
| Net exchange loss | 140 | 247 |
| Auditors' remuneration | 1,110 | 790 |
| Amortisation of deferred development costs (included in research and development costs) | 521 | – |
| Amortisation of goodwill (included in general and administrative expenses) | 60 | 79 |
| Crediting | | |
| Gain on disposal of property, plant and equipment | 1 | – |
| Amortisation of negative goodwill (included in general and administrative expenses) | 625 | 608 |

6. FINANCE COSTS

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Interest on: | | |
| – bank loans wholly repayable within five years | 3,319 | 2,252 |
| – obligations under finance leases | 280 | 126 |
| | 3,599 | 2,378 |

7. TAXATION

(a) Bermuda income tax

The Company is exempted from taxation in Bermuda on its profit or capital gains until 2016.

(b) Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year.

(c) PRC enterprise income tax

Suga Electronics (Shenzhen) Co., Ltd., Suga Networks Equipment (Shenzhen) Limited ("SNESL"), Pets & Supplies (Shenzhen) Co., Ltd and Nodic-Matsumoto Tooling and Plastic Injection (Huizhou) Co., Ltd. ("Nodic") are subsidiaries established in the People's Republic of China ("PRC"). Being enterprises established in the special economic zones of the PRC, they are subject to PRC enterprise income tax ("EIT") at the rate of 15% to 24% on their taxable income in accordance with the relevant PRC tax laws and regulations. SNESL and Nodic are exempted from EIT for the first two years of profitable operations after off-setting prior year losses, followed by 50% deduction for the following three years. SNESL and Nodic started to make profit in 2003 and 2001 respectively.

The amount of taxation charged to the consolidated profit and loss account represents:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Current taxation: | | |
| – Hong Kong profits tax | 3,447 | 2,230 |
| – Taxation outside Hong Kong | 1,057 | 201 |
| Deferred taxation relating to the origination and reversal of temporary differences | <u>(1,911)</u> | <u>(55)</u> |
| Taxation | <u>2,593</u> | <u>2,376</u> |



NOTES TO THE ACCOUNTS

7. TAXATION (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the domestic taxation rate in Hong Kong as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Profit before taxation | 21,810 | 46,282 |
| Calculated at a taxation rate of 17.5% (2004: 17.5%) | 3,817 | 8,099 |
| Effect of different taxation rates on income | | |
| arising outside Hong Kong | (163) | 33 |
| Tax losses not recognised | 1,145 | 854 |
| Expenses not deductible for taxation purpose | 189 | 5 |
| Income not subject to taxation | (1,026) | (616) |
| Income exempted from taxation | (1,369) | (5,984) |
| Utilisation of previously unrecognised tax losses | – | (15) |
| Taxation charge | 2,593 | 2,376 |

8. STAFF COSTS

Staff costs, including directors' emoluments, represents:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Wages and salaries | 34,474 | 20,623 |
| Bonus | 913 | 674 |
| Unutilised annual leave | 171 | 60 |
| Pension costs – defined contribution plans | 1,229 | 1,356 |
| Staff welfare | 3,405 | 3,649 |
| | 40,192 | 26,362 |

9. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

(a) The aggregate amounts of emoluments payable to the directors are as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Directors' fees | | |
| – independent non-executive directors | 377 | – |
| – non-executive director | 204 | 204 |
| Other emoluments payable to executive directors | | |
| – basic salaries, allowances and other benefits in kind | 4,776 | 5,185 |
| – contribution to retirement scheme | 363 | 331 |
| | 5,720 | 5,720 |

The emoluments of the directors fell within the following bands:

| | Number of directors | |
|-------------------------------|---------------------|------|
| | 2005 | 2004 |
| Emoluments bands | | |
| HK\$Nil – HK\$1,000,000 | 7 | 6 |
| HK\$2,000,001 – HK\$2,500,000 | 1 | 1 |
| | 8 | 7 |

During the year, 5,500,000 (2004: 7,400,000) options were granted to the directors under the share option scheme adopted by the Company on 17 September 2002. The market value per share as at the date of grant was HK\$1.22 (2004: HK\$1.23).

No share options were exercised by the directors during the year ended 31 March 2005. The aggregate difference between the market prices of the Company's shares as at the date of exercise of the share options and consideration paid by the directors amounted to HK\$845,000 for the year ended 31 March 2004. Such amount was not recorded by the Group as an expense but was disclosed as "other benefits in kind" in the above analysis.



NOTES TO THE ACCOUNTS

9. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

- (b) The five individuals whose emoluments were the highest in the Group for the year included three (2004: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals (2004: one individual) during the year are as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Basic salaries, allowances and other benefits in kind | 1,189 | 650 |
| Contribution to retirement scheme | 59 | 33 |
| | 1,248 | 683 |

The emoluments fell within the following band:

| | Number of individuals | |
|-------------------------|-----------------------|------|
| | 2005 | 2004 |
| Emolument bands | | |
| HK\$Nil – HK\$1,000,000 | 2 | 1 |

- (c) No emoluments were paid to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the year. No directors or the five highest paid individuals waived or agreed to waive any emoluments during the year.

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK\$7,578,000 (2004: HK\$12,503,000).

11. DIVIDENDS

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Interim dividend, paid, of HK3 cents (2004: HK2.5 cents) per ordinary share | 6,838 | 5,636 |
| Final dividend, proposed, of HK0.35 cent (2004: HK3 cents) per ordinary share | 798 | 6,778 |
| | 7,636 | 12,414 |

At a meeting held on 25 July 2005, the directors proposed a final dividend of HK\$0.35 cent per ordinary share. This proposed dividend is not reflected as dividend payable in these accounts (Note 27).

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the consolidated profit attributable to shareholders of approximately HK\$19,226,000 (2004: HK\$42,843,000). The basic earnings per share is based on the weighted average number of 226,839,000 (2004: 218,878,000) ordinary shares in issue during the year.

No information in respect of diluted earnings per share is presented for the year ended 31 March 2005 as the Company had no potential dilutive ordinary shares in existence during the year ended 31 March 2005. The diluted earnings per share for the year ended 31 March 2004 was based on 220,224,000 ordinary shares which was the weighted average number of ordinary shares in issue during the year plus the weighted average of 1,346,000 deemed to be issued at no consideration if all outstanding share options had been exercised.

13. PROPERTY, PLANT AND EQUIPMENT

| | Group | | | | |
|---------------------------------|--------------------------------|------------------------------------|---------------------------------|-------------------------------------|-------------------|
| | Land and buildings HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Furniture and equipment HK\$'000 | Total HK\$'000 |
| Cost | | | | | |
| At 1 April 2004 | 38,500 | 11,161 | 41,621 | 16,517 | 107,799 |
| Additions | – | 1,603 | 10,576 | 3,368 | 15,547 |
| Acquisition of subsidiaries | – | 1,531 | 9,769 | 851 | 12,151 |
| Disposals | – | – | – | (150) | (150) |
| At 31 March 2005 | 38,500 | 14,295 | 61,966 | 20,586 | 135,347 |
| Accumulated depreciation | | | | | |
| At 1 April 2004 | 2,504 | 5,879 | 24,200 | 8,618 | 41,201 |
| Charge for the year | 939 | 2,393 | 7,829 | 2,746 | 13,907 |
| Disposals | – | – | – | (130) | (130) |
| At 31 March 2005 | 3,443 | 8,272 | 32,029 | 11,234 | 54,978 |
| Net book value | | | | | |
| At 31 March 2005 | 35,057 | 6,023 | 29,937 | 9,352 | 80,369 |
| At 31 March 2004 | 35,996 | 5,282 | 17,421 | 7,899 | 66,598 |

Land and buildings represent the Group's factory premises located in Buji Town, Lilang Village, Longgang District, Shenzhen, PRC, on land held under a land use right for a period of 50 years up to August 2042.

NOTES TO THE ACCOUNTS

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Net book value of machinery held under finance leases of the Group is as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--------------------------------|------------------|------------------|
| Cost | 13,041 | 13,041 |
| Less: Accumulated depreciation | (8,435) | (5,490) |
| Net book value | 4,606 | 7,551 |

14. INTANGIBLE ASSETS

Movements of intangible assets during the year are as follows:

| | Negative goodwill HK\$'000 | Goodwill HK\$'000 | Sub-total HK\$'000 | Deferred development costs HK\$'000 | Total HK\$'000 |
|--|----------------------------------|----------------------|-----------------------|--|-------------------|
| Year ended 31 March 2005 | | | | | |
| Opening net book amount | (10,382) | 1,119 | (9,263) | 1,333 | (7,930) |
| Acquisition of subsidiaries | (845) | – | (845) | – | (845) |
| Development costs recognised as asset | – | – | – | 699 | 699 |
| Government grants | – | – | – | (285) | (285) |
| Amortisation | 625 | (60) | 565 | (521) | 44 |
| Closing net book amount | (10,602) | 1,059 | (9,543) | 1,226 | (8,317) |
| At 31 March 2005 | | | | | |
| Cost | (12,999) | 1,198 | (11,801) | 1,747 | (10,054) |
| Accumulated amortisation | 2,397 | (139) | 2,258 | (521) | 1,737 |
| Net book amount | (10,602) | 1,059 | (9,543) | 1,226 | (8,317) |
| At 31 March 2004 | | | | | |
| Cost | (12,154) | 1,198 | (10,956) | 1,333 | (9,623) |
| Accumulated amortisation | 1,772 | (79) | 1,693 | – | 1,693 |
| Net book amount | (10,382) | 1,119 | (9,263) | 1,333 | (7,930) |

15. INVESTMENT IN SUBSIDIARIES

| | Company | |
|--------------------------|-----------------|----------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 65,072 | 65,072 |
| Due from subsidiaries | 75,774 | 80,170 |
| | 140,846 | 145,242 |

The directors are of the opinion that the underlying value of investment in subsidiaries is not less than its carrying values as at 31 March 2005.

The balances due from subsidiaries are unsecured, non-interest bearing and not repayable within one year.

Details of the principal subsidiaries of the Company as at 31 March 2005 are as follows:

| Name | Place of incorporation/ establishment and kind of legal entity | Issued share capital/ Paid-up capital | Group equity interest (v) | | Principal activities and place of operation |
|---|---|---|---------------------------|------|---|
| | | | 2005 | 2004 | |
| Suga Electronics Limited (i) | Hong Kong, limited liability company | Ordinary shares HK\$2 Non-voting deferred shares HK\$4,000,000 (i) | 100% | 100% | Trading of electronic products in Hong Kong |
| Suga Electronics (Shenzhen) Co., Ltd. (ii), (vii) | PRC, limited liability company | HK\$33,500,000 | 100% | 100% | Manufacturing of electronic products in PRC |
| Typhoon International Limited | British Virgin Islands, limited liability company | Ordinary shares US\$1 | 100% | 100% | Property holding in PRC |
| Speedy Source Limited | Hong Kong, limited liability company | Ordinary shares HK\$2 | 100% | 100% | Trading of electronic products in Hong Kong |
| Sumega Hong Kong Limited | Hong Kong, limited liability company | Ordinary shares HK\$500,000 | 100% | 100% | Trading of computer-related products in Hong Kong |



NOTES TO THE ACCOUNTS

15. INVESTMENT IN SUBSIDIARIES (Continued)

| Name | Place of incorporation/ establishment and kind of legal entity | Issued share capital/ Paid-up capital | Group equity interest (v) | | Principal activities and place of operation |
|--|---|--|---------------------------|------|---|
| | | | 2005 | 2004 | |
| Suga Networks Hong Kong Limited | Hong Kong, limited liability company | Ordinary shares HK\$100,000 | 100% | 100% | Trading of networking devices in Hong Kong |
| Suga Networks Equipment (Shenzhen) Co. Ltd. ("SNESL") (iii), (vii) | PRC, limited liability company | HK\$17,500,000 (iii) | 100% | 100% | Manufacturing of networking devices in PRC |
| Suga International Limited (v) | British Virgin Islands, limited liability company | Ordinary shares US\$700 | 100% | 100% | Investment holding in Hong Kong |
| Net-Tech Products Limited | Hong Kong, limited liability company | Ordinary shares HK\$2 | 100% | 100% | Trading of electronic products in Hong Kong |
| Net-Tech Products Pte. Limited | Singapore, limited exempt private company | Ordinary shares SGD20,000 | 90% | - | Trading of electronic products in Singapore |
| Pets & Supplies Hong Kong Limited | Hong Kong, limited liability company | Ordinary shares HK\$2 | 100% | 100% | Trading of pet products in Hong Kong |
| P&S Macao Commercial Offshore Limited | Macao, limited liability company | Ordinary shares MOP100,000 | 100% | 100% | Trading of pet products in Macau |
| Suga Digital Technology Limited | Hong Kong, limited liability company | Ordinary shares HK\$2 | 100% | 100% | Design and trading of digital A/V products in Hong Kong |
| Precise Computer Tooling Co., Limited | Hong Kong, limited liability company | Ordinary shares HK\$500,000 | 100% | - | Manufacture and trading of plastic parts in Hong Kong |
| Nodic-Matsumoto Tooling and Plastic Injection (Huizhou) Co., Limited ("Nodic") (iv), (vii) | PRC, limited liability company | US\$3,000,000 | 100% | - | Manufacture of plastic parts in PRC |

15. INVESTMENT IN SUBSIDIARIES (Continued)

Notes:

- (i) The non-voting deferred shares of Suga Electronics Limited are held by Essential Mix Enterprises Limited and Broadway Business Limited, which are owned by Mr. Ng Chi Ho and Mr. Ma Fung On, directors and beneficial shareholders of the Company, and Mr. Fung Chi Leung, Mark, a director of the Company up to 31 October 2004. These non-voting deferred shares have no voting rights, are not entitled to dividends, and are not entitled to any distributions upon winding up unless a sum of HK\$10,000,000,000 per ordinary share has been distributed to the holders of the ordinary shares.
- (ii) Suga Electronics (Shenzhen) Co., Ltd. is a wholly foreign owned enterprise established in PRC with an approved period of operation of 20 years until June 2014.
- (iii) SNESL is a wholly foreign owned enterprise established in PRC with an approved period of operation of 20 years until October 2022.
- (iv) Nodic is a wholly foreign owned enterprise established in PRC with an approved period of operation of 30 years until September 2020.
- (v) The shares of Suga International Limited are held directly by the Company. The shares of the other subsidiaries are held indirectly.
- (vi) None of the subsidiaries had any loan capital in issue at any time during the year ended 31 March 2005.
- (vii) All subsidiaries established in the PRC have financial accounting year end dates on 31 December in accordance with the local statutory requirements, which is not coterminous with the Group. The consolidated accounts of the Group were prepared based on the management accounts of these subsidiaries for the twelve months ended 31 March 2005.

16. INTEREST IN AN ASSOCIATE

| | Group | |
|--------------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Unlisted shares, at cost | — | — |
| Share of net assets | 2,260 | — |
| | 2,260 | — |

Particulars of the Company's associate as at 31 March 2005 are as follows:

| Name | Place of incorporation/ establishment and kind of legal entity | Issued share capital/ Paid-up capital | Principal activities and place of operation | |
|---------------------|---|--|---|------|
| | | | Group equity interest 2005 | 2004 |
| Modern Tech Limited | Hong Kong, limited liability company | Ordinary shares HK\$10,250,000 | 29.27% | — |



NOTES TO THE ACCOUNTS

17. UNLISTED INVESTMENTS

Unlisted investments represent unlisted investment funds issued by a commercial bank in Hong Kong.

18. INVENTORIES

| | Group | |
|--|----------------|----------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 107,530 | 66,979 |
| Work-in-progress | 15,289 | 17,248 |
| Finished goods | 21,604 | 12,757 |
| | 144,423 | 96,984 |
| Less: Provision for obsolete and slow-moving inventories | (4,032) | (1,800) |
| | 140,391 | 95,184 |

Certain of the Group's inventories are held under trust receipts loan arrangements (see note 31).

19. TRADE RECEIVABLES

During the year ended 31 March 2005, the Group generally granted credit terms to its customers ranging from 30 to 90 days, other than a major customer with whom extended credit period was granted on specific cases. The ageing analysis of trade receivables is as follows:

| | Group | |
|--|----------------|----------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| 0 to 30 days | 133,187 | 174,214 |
| 31 to 60 days | 17,475 | 12,188 |
| 61 to 90 days | 8,697 | 6,625 |
| 91 to 180 days | 5,662 | 2,157 |
| Over 180 days | 4,696 | 1,362 |
| | 169,717 | 196,546 |
| Less: Provision for bad and doubtful debts | (4,245) | (1,000) |
| | 165,472 | 195,546 |

20. CASH AND BANK DEPOSITS

As at 31 March 2005, approximately HK\$22,469,000 (2004: HK\$48,477,000) of the Group's cash and bank deposits were denominated in Chinese Renminbi and placed with banks in Mainland China. The remittance of these funds out of Mainland China is subject to exchange control restrictions imposed by the Chinese government.

21. LONG-TERM BANK LOANS

The Group's long-term bank loans are unsecured and repayable as follows:

| | Group | |
|---|-----------------|----------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Within one year | 53,333 | 16,485 |
| In the second year | 55,069 | 22,667 |
| In the third year | 22,223 | 12,855 |
| | 130,625 | 52,007 |
| Less: Current portion of long-term bank loans | (53,333) | (16,485) |
| | 77,292 | 35,522 |

Details of the Group's banking facilities are included in note 31.

22. TRADE PAYABLES

| | Group | |
|----------------|-----------------|----------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| 0 to 30 days | 77,386 | 74,676 |
| 31 to 60 days | 9,230 | 21,275 |
| 61 to 90 days | 3,197 | 10,848 |
| 91 to 180 days | 4,854 | 6,523 |
| Over 180 days | 452 | 2,049 |
| | 95,119 | 115,371 |



NOTES TO THE ACCOUNTS

23. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement on the deferred tax liabilities/(assets) account is as follows:

| | Group | 2005 HK\$'000 | 2004 HK\$'000 |
|--|----------------|------------------|------------------|
| At 1 April | 4,337 | 4,392 | |
| Acquisition of subsidiaries | 250 | – | |
| Deferred taxation credited to profit and loss account (Note 7) | (1,911) | (55) | |
| At 31 March | 2,676 | 4,337 | |

The movements in deferred tax assets and liabilities during the year are as follows:

| Deferred tax liabilities | Accelerated tax depreciation | | | |
|------------------------------------|------------------------------|--------------|--|--|
| | 2005 HK\$ | 2004 HK\$ | | |
| At 1st April | 5,519 | 5,333 | | |
| Acquisition of subsidiaries | 250 | – | | |
| Charged to profit and loss account | 949 | 186 | | |
| At 31st March | 6,718 | 5,519 | | |

| Deferred tax assets | Provisions | | Tax losses | | Total | |
|-------------------------------------|--------------|--------------|----------------|--------------|----------------|--------------|
| | 2005 HK\$ | 2004 HK\$ | 2005 HK\$ | 2004 HK\$ | 2005 HK\$ | 2004 HK\$ |
| | | | | | | |
| At 1st April | (175) | (175) | (1,007) | (766) | (1,182) | (941) |
| Credited to profit and loss account | (568) | – | (2,292) | (241) | (2,860) | (241) |
| At 31st March | (743) | (175) | (3,299) | (1,007) | (4,042) | (1,182) |

23. DEFERRED TAXATION (*Continued*)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown as non-current assets or liabilities in the balance sheet:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--------------------------|------------------|------------------|
| Deferred tax assets | (2,515) | (412) |
| Deferred tax liabilities | 5,191 | 4,749 |
| | 2,676 | 4,337 |

24. OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2005, the Group's finance lease liabilities were repayable as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Within one year | 4,130 | 3,189 |
| In the second to fifth year | 1,185 | 3,674 |
| | 5,315 | 6,863 |
| Less: future finance charges on finance leases | (244) | (323) |
| | (5,071) | 6,540 |
| Less: current portion | (3,926) | (2,967) |
| | 1,145 | 3,573 |

The present value of finance lease liabilities is as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|-----------------------------|------------------|------------------|
| Within one year | 3,926 | 2,967 |
| In the second to fifth year | 1,145 | 3,573 |
| | 5,071 | 6,540 |



NOTES TO THE ACCOUNTS

25. SHARE CAPITAL

| | Authorised ordinary shares of HK\$0.1 each | |
|---|--|----------|
| | No. of shares | |
| | '000 | HK\$'000 |
| As at 31 March 2004 and 2005 | 2,000,000 | 200,000 |
| | | |
| | Issued and fully paid ordinary shares of HK\$0.1 each | |
| | No. of shares | |
| | '000 | HK\$'000 |
| As at 1 April 2003 | 200,000 | 20,000 |
| Issue of shares through private placement (note (a)) | 20,000 | 2,000 |
| Issue of shares on acquisition of additional interests | | |
| in a subsidiary (note (b)) | 1,800 | 180 |
| Exercise of share option (Note 26) | 4,140 | 414 |
| | | |
| As at 31 March 2004 | 225,940 | 22,594 |
| | | |
| Issue of shares on acquisition of subsidiaries (note (c)) | 2,000 | 200 |
| | | |
| As at 31 March 2005 | 227,940 | 22,794 |

Notes:

- (a) Pursuant to a placing and subscription agreement dated 2 June 2003, the Company issued 20,000,000 new shares at HK\$1.4 each to certain independent institutional investors. The net proceeds raised amounted to HK\$27,329,000.
- (b) On 25 September 2003, the Group acquired the remaining 15% interests in Suga Networks Hong Kong Limited ("Suga Networks"), from the then minority shareholder of Suga Networks (the "Vendor") at HK\$4,500,000 which was settled by issuance of 1,800,000 shares to the Vendor. Based on the closing price of HK\$1.5 per share as quoted by the Stock Exchange on 25 September 2003, the total value of the shares issued as consideration was HK\$2,700,000, which had been credited to share capital and share premium accounts to the extent of HK\$180,000 and HK\$2,520,000 respectively.
- (c) On 19 October 2004, the Group acquired the entire interest in Precise Computer Tooling Co., Limited, a company incorporated in Hong Kong which is principally engaged in the manufacturing and trading of plastic products. Out of the total consideration of HK\$8,500,000, approximately HK\$2,700,000 was satisfied by the issuance of 2,000,000 shares of the Company with a par value of HK\$0.1 each to the vendor; while the remaining balance was payable in cash. Based on the closing price of the Company's shares at HK\$1.27 per share as quoted by the Stock Exchange on 19 October 2004, the total value of shares issued by the Company to the vendors as consideration was HK\$2,540,000, which had been credited to share capital and share premium accounts to the extent of HK\$200,000 and HK\$2,340,000 respectively.

26. SHARE OPTION

The Company adopted a share option scheme (the "Share Option Scheme") on 17 September 2002. Pursuant to the Share Option Scheme, the Company may grant share options to certain guarantee (including directors and employees) of the Group to subscribe for shares in the Company, subject to a maximum of 30% of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the directors, and will not be less than the highest of the nominal value of the shares, the closing price of the shares quoted on the Stock Exchange on the trading day of granted the options and the average of the closing prices of the shares quoted on the Stock Exchange for the five trading days immediately preceding the date of granting the options.

Movements in the number of share options outstanding during the year are as follows:

| | Number of options | |
|------------------------------|--------------------------|-------------|
| | 2005 | 2004 |
| | '000 | '000 |
| At the beginning of the year | 8,110 | – |
| Granted (i) | 6,300 | 12,300 |
| Exercised (ii) | – | (4,140) |
| Lapsed/cancelled | – | (50) |
| At the end of the year (iii) | 14,410 | 8,110 |

- (i) On 5 May 2003, the Company received HK\$42 as consideration for granting of 12,300,000 share options to certain directors and employees of the Group. Holders of these share options are entitled to subscribe share of the Company at price of HK\$1.23 each. These share options will expire on 4 May 2008.

On 7 May 2004, the Company received HK\$8 as consideration for granting of 6,300,000 share options to certain directors and employees of the Group. Holders of these share options are entitled to subscribe share of the Company at price of HK\$1.23 each. These share options will expire on 6 May 2009.

- (ii) No share options were exercised during the year. (2004:4,140,000 shares)



NOTES TO THE ACCOUNTS

26. SHARE OPTION (Continued)

(iii) Share options outstanding at the end of the year have the following terms:

| | Exercise price | Number of options | | Vested percentages | |
|--------------------|----------------|-------------------|--------------|--------------------|------|
| | | 2005 '000 | 2004 '000 | 2005 | 2004 |
| Expiry date | | | | | |
| Directors | | | | | |
| 4 May 2008 | 1.23 | 4,170 | 4,170 | 100% | 100% |
| 6 May 2009 | 1.23 | 5,500 | – | 100% | |
| Other employees | | | | | |
| 4 May 2008 | 1.23 | 3,940 | 3,940 | 100% | 100% |
| 6 May 2009 | 1.23 | 800 | – | 100% | |
| | | 14,410 | 8,110 | | |

27. RESERVES

| | Share premium HK\$'000 | Capital reserve HK\$'000 | Exchange reserve HK\$'000 | Retained profit HK\$'000 | Total HK\$'000 |
|---|--------------------------------------|--|---|--|--------------------------|
| At 1 April 2004 | 51,175 | 10,591 | 2,428 | 112,840 | 177,034 |
| Issue of shares on acquisition of subsidiaries (note 25(c)) | 2,340 | – | – | – | 2,340 |
| Exercise differences arising on translation of the accounts of foreign subsidiaries | – | – | 25 | – | 25 |
| Profit for the year | – | – | – | 19,226 | 19,226 |
| Dividends paid | – | – | – | (13,616) | (13,616) |
| At 31 March 2005 | 53,515 | 10,591 | 2,453 | 118,450 | 185,009 |
| Representing: | | | | | |
| Proposed dividend | | | | 798 | |
| Others | | | | 117,652 | |
| Retained profit as at | | | | | |
| 31 March 2005 | | | | 118,450 | |
| At 1 April 2003 | 18,648 | 10,591 | 2,428 | 81,166 | 112,833 |
| Issue of shares through private placement (note 25(a)) | 26,000 | – | – | – | 26,000 |
| Share issuance expenses | (671) | – | – | – | (671) |
| Exercise of share options (note 26) | 4,678 | – | – | – | 4,678 |
| Issue of shares on acquisition of additional interests in a subsidiary (note 25(b)) | 2,520 | – | – | – | 2,520 |
| Profit for the year | – | – | – | 42,843 | 42,843 |
| Dividends paid | – | – | – | (11,169) | (11,169) |
| At 31 March 2004 | 51,175 | 10,591 | 2,428 | 112,840 | 177,034 |
| Representing: | | | | | |
| Proposed dividend | | | | 6,778 | |
| Others | | | | 106,062 | |
| Retained profit as at | | | | | |
| 31 March 2004 | | | | 112,840 | |



NOTES TO THE ACCOUNTS

27. RESERVES (Continued)

| | Share premium HK\$'000 | Company Contributed surplus HK\$'000 | Retained profit HK\$'000 | Total HK\$'000 |
|--|------------------------------|---|--------------------------------|-------------------|
| At 1 April 2004 | 51,175 | 64,872 | 6,935 | 122,982 |
| Issue of shares on acquisition of subsidiaries (note 25(c)) | 2,340 | – | – | 2,340 |
| Profit for the year | – | – | 7,578 | 7,578 |
| Dividends paid | – | – | (13,616) | (13,616) |
| At 31 March 2005 | 53,515 | 64,872 | 897 | 119,284 |

Representing:

| | |
|-------------------|-----|
| Proposed dividend | 798 |
| Others | 99 |

Retained profit as at 31 March 2005

| | | | | |
|---|---------------|---------------|--------------|----------------|
| At 1 April 2003 | 18,648 | 64,872 | 5,601 | 89,121 |
| Issue of shares through private placement (note 25(a)) | 26,000 | – | – | 26,000 |
| Share issuance expenses | (671) | – | – | (671) |
| Exercise of share options (Note 26) | 4,678 | – | – | 4,678 |
| Issue of shares on acquisition of additional interests in a subsidiary (note 25(b)) | 2,520 | – | – | 2,520 |
| Profit for the year | – | – | 12,503 | 12,503 |
| Dividends paid | – | – | (11,169) | (11,169) |
| At 31 March 2004 | 51,175 | 64,872 | 6,935 | 122,982 |

Representing:

| | |
|-------------------|-------|
| Proposed dividend | 6,778 |
| Others | 157 |

Retained profit as at 31 March 2004

Contributed surplus represents the difference between the nominal amount of the shares issued and the book value of the underlying net assets of subsidiaries acquired.

Under the Companies Act 1981 of Bermuda, retained profit and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of retained profit and contributed surplus of (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

28. CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit before taxation to net cash generated from/(used in) operations

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Profit before taxation | 21,810 | 46,282 |
| Depreciation of property, plant and equipment | 13,907 | 7,685 |
| (Gain)/loss on disposal of property, plant and equipment | (1) | 31 |
| Amortisation of negative goodwill | (565) | (529) |
| Amortisation of deferred development costs | 521 | – |
| Interest income | (454) | (343) |
| Interest expense | 3,599 | 2,378 |
| Share of loss of an associate | 740 | – |
| Unrealised gain on other investments | – | (300) |
| Operating profit before working capital changes | 39,557 | 55,204 |
| Increase in inventories | (41,658) | (29,144) |
| Decrease/(increase) in trade receivables | 39,201 | (93,752) |
| Decrease/(increase) in prepayments, deposits and other receivables | 3,941 | (4,785) |
| (Decrease)/increase in trade payables | (25,460) | 60,698 |
| Decrease in accruals and other payables | (4,403) | (444) |
| Net cash generated from/(used in) operations | 11,178 | (12,223) |

(b) Analysis of changes in financing is as follows:

| | Share capital and share premium HK\$'000 | Long-term bank loans HK\$'000 | Short-term bank loans HK\$'000 | Obligations under finance leases HK\$'000 | Dividend payable HK\$'000 | Minority interests HK\$'000 |
|---|--|-------------------------------------|--------------------------------------|---|---------------------------------|-----------------------------------|
| Balance as at 1 April 2004 | 73,769 | 52,007 | 41,826 | 6,540 | – | – |
| Acquisition of subsidiaries (note 28(c)) | 2,540 | – | 1,221 | 2,481 | – | – |
| New long-term bank loans raised | – | 110,000 | – | – | – | – |
| Repayment of long-term bank loans | – | (31,382) | – | – | – | – |
| Net decrease in short-term bank loans | – | – | (41,524) | – | – | – |
| Repayment of capital element of finance lease obligations | – | – | – | (3,950) | – | – |
| Minority interests' share of loss | – | – | – | – | – | (9) |
| Contribution from minority shareholder of a subsidiary | – | – | – | – | – | 9 |
| Dividends declared | – | – | – | – | 13,616 | – |
| Dividends paid | – | – | – | – | (13,616) | – |
| Balance as at 31 March 2005 | 76,309 | 130,625 | 1,523 | 5,071 | – | – |



NOTES TO THE ACCOUNTS

28. CONSOLIDATED CASH FLOW STATEMENTS (Continued)

(b) Analysis of changes in financing is as follows: (Continued)

| | Share capital | | Obligations | | | |
|---|-------------------|----------------------|-----------------------|----------------------|------------------|--------------------|
| | and share premium | Long-term bank loans | Short-term bank loans | under finance leases | Dividend payable | Minority interests |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Balance as at 1 April 2003 | 38,648 | 5,277 | 37,790 | 9,382 | – | 440 |
| Issue of ordinary shares | 33,092 | – | – | – | – | – |
| Share issuance expenses | (671) | – | – | – | – | – |
| Repayment of long-term bank loans | – | (6,270) | – | – | – | – |
| New long-term bank loans raised | – | 53,000 | – | – | – | – |
| Net increase in short-term bank loans | – | – | 4,036 | – | – | – |
| Repayment of capital element of finance lease obligations | – | – | – | (2,842) | – | – |
| Minority interests' share of profit | – | – | – | – | – | 1,063 |
| Acquisition of additional interests in a subsidiary | 2,700 | – | – | – | – | (1,503) |
| Dividends declared | – | – | – | – | 11,169 | – |
| Dividends paid | – | – | – | – | (11,169) | – |
| | | | | | | |
| Balance as at 31 March 2004 | 73,769 | 52,007 | 41,826 | 6,540 | – | – |

28. CONSOLIDATED CASH FLOW STATEMENTS (Continued)

(c) Acquisition of subsidiaries

On 24 October 2004, the Group acquired the entire interest in Precise Computer Tooling Co., Limited, a company incorporated in Hong Kong which, together with its subsidiary, are principally engaged in manufacturing and trading of plastic parts. Details of the acquisition are as follows:

| | 2005 |
|---|-----------------|
| | HK\$'000 |
| Net assets acquired | |
| Property, plant and equipment | 12,151 |
| Inventories | 3,549 |
| Trade receivables | 9,127 |
| Prepayments, deposits and other receivables | 1,367 |
| Cash and bank deposits | 495 |
| Trade payables | (5,208) |
| Accruals and other payables | (8,385) |
| Short-term bank loans | (1,221) |
| Tax payables | (59) |
| Deferred tax liabilities | (250) |
| Obligations under finance leases | (2,481) |
| | 9,085 |
| Negative goodwill | (845) |
| Total consideration | 8,240 |
| Satisfied by: | |
| Cash | 3,700 |
| Consideration payable (included in accruals and other payables) | 2,000 |
| New shares issued | 2,540 |
| | 8,240 |
| New inflow of cash and cash equivalents arising on acquisition: | |
| Cash consideration | (3,700) |
| Cash and bank deposits acquired | 495 |
| | (3,205) |



NOTES TO THE ACCOUNTS

28. CONSOLIDATED CASH FLOW STATEMENTS (Continued)

(d) Analysis of cash and cash equivalents:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|------------------------|------------------|------------------|
| Cash and bank deposits | 70,407 | 66,150 |

29. CONTINGENT LIABILITIES

| | Company 2005 HK\$'000 | 2004 HK\$'000 |
|--|-----------------------------|------------------|
| Guarantees provided by the Company in respect of bank facilities of certain subsidiaries | 143,310 | 136,201 |

As at 31 March 2004 and 2005, the Group did not have any significant contingent liabilities.

30. COMMITMENTS

Operating lease commitments

At 31 March 2005, the Group had future aggregate minimum lease payments in respect of rented premises under non-cancellable operating leases as follows:

| | Group 2005 HK\$'000 | 2004 HK\$'000 |
|---|---------------------------|------------------|
| Not later than one year | 907 | 1,078 |
| Later than one year and not later than five years | 583 | 42 |
| | 1,490 | 1,120 |

The Company did not have any significant commitments as at 31 March 2005 (2004: Nil)

31. BANKING FACILITIES

At 31 March 2005, the Group had aggregate banking facilities of approximately HK\$370,311,000 (2004: HK\$251,787,000) for overdrafts, loans and trade financing. Unused facilities at the same date amounted to approximately HK\$201,568,000 (2004: HK111,916,000). These facilities are secured by (i) certain inventories held under trust receipts loan arrangements; and (ii) corporate guarantee provided by the Company and certain of its subsidiaries. In addition, the Group has undertaken to comply with certain restrictive financial covenants.

32. EMPLOYEE RETIREMENT BENEFITS

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"). The MPF Scheme is a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation.

As stipulated by rules and regulations in PRC, the Group contributes to state-sponsored retirement plans for its employees in Mainland China. The Group contributes approximately 7% to 12% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

As stipulated by rules and regulations in Singapore, the Group has arranged its Singapore employees to join the Central Provident Fund Scheme ("the CPF Scheme"). The Group contributes approximately 5% to 13% of the basic salaries of its employees under the Central Provident Fund legislation.

For the year ended 31 March 2005, the aggregate amount of the Group's contributions to the aforementioned pension schemes were approximately HK\$1,229,000 (2004: HK\$1,356,000).

33. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one 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.

Significant related party transactions, which were carried out in the normal course of the Group's business are disclosed below:

- (a) During the year, the Group paid technical consultancy fee and license fee of approximately HK\$560,000 (2004: HK\$550,000) and HK\$275,000 (2004: HK\$Nil) respectively to Micom Tech Limited, a company incorporated in Hong Kong in which Mr. NG Chi Ho, a director of the Company, held interests and is a director, at terms agreed with Micom Tech Limited.
- (b) During the year, the Group acquired a 29.27% interest in Modern Tech Limited ("Modern Tech"), a company incorporated in Hong Kong which is principally engaged in the development and sales of electronic educational products by subscription of 3,000,000 new ordinary shares of Modern Tech at HK\$1.00 each, totalling HK\$3,000,000 for cash. Prior to the acquisition, Modern Tech was owned as to 100% by Micom Tech Limited.

34. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 25 July 2005.

FIVE YEAR FINANCIAL SUMMARY

A summary of the consolidated results and of the consolidated assets and liabilities of the Group for the last five financial years is set out below:

| | For the year ended 31 March | | | | 2005 HK\$'000 |
|--|------------------------------------|--------------------------|---|--------------------------|--------------------------|
| | 2001 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 (restated) | 2004 HK\$'000 | |
| CONSOLIDATED RESULTS | | | | | |
| Turnover | 217,993 | 243,655 | 453,344 | 600,911 | 591,424 |
| Operating profit | 30,433 | 34,282 | 46,240 | 48,660 | 26,149 |
| Continuing operation | 32,183 | 38,380 | 48,407 | 48,660 | 26,149 |
| Discontinuing operation | (1,750) | (4,098) | (2,167) | – | – |
| Profit before taxation | 29,653 | 33,340 | 43,781 | 46,282 | 21,810 |
| Taxation | (5,238) | (6,122) | (5,069) | (2,376) | (2,593) |
| Profit after taxation | 24,415 | 27,218 | 38,712 | 43,906 | 19,217 |
| Minority interests | – | – | (425) | (1,063) | 9 |
| Profit attributable to shareholders | 24,415 | 27,218 | 38,287 | 42,843 | 19,226 |
| | | | | | |
| | As at 31 March | | | | |
| | 2001 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2005 HK\$'000 |
| CONSOLIDATED ASSETS AND LIABILITIES | | | | | |
| Property, plant and equipment | 5,531 | 53,024 | 62,755 | 66,598 | 80,369 |
| Negative goodwill/goodwill | – | (15,448) | (10,990) | (9,263) | (9,543) |
| Deferred development cost | – | – | – | 1,333 | 1,226 |
| Interest in an associate | – | – | – | – | 2,260 |
| Unlisted investment | – | 3,510 | 3,510 | 3,810 | – |
| Deferred tax assets | – | – | – | 412 | 2,515 |
| Current assets | 107,970 | 116,449 | 207,041 | 368,970 | 389,650 |
| Current liabilities | (52,504) | (59,617) | (116,167) | (188,388) | (175,046) |
| Net current assets | 55,466 | 56,832 | 90,874 | 180,582 | 214,604 |
| Total assets less current liabilities | 60,997 | 97,918 | 146,149 | 243,472 | 291,431 |
| Long-term bank loans | – | (5,277) | (1,943) | (35,522) | (77,292) |
| Obligations under finance leases | – | (3,418) | (6,541) | (3,573) | (1,145) |
| Deferred tax liabilities | (87) | (1,044) | (4,392) | (4,749) | (5,191) |
| Minority interests | – | – | (440) | – | – |
| Shareholders' funds | 60,910 | 88,179 | 132,833 | 199,628 | 207,803 |

Note:

- (a) Pursuant to a group reorganisation scheme in preparation for the listing of the Company's shares on the Stock Exchange (the "Reorganisation"), the Company became the holding company of the companies comprising the group (collectively referred to as the "Group") on 23 August 2002. The group reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated accounts have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31 March 2003, rather than from the date on which the Reorganisation was completed. The results and state of affairs of the Group as at and for the years ended 31 March 2001 and 2002 are presented on the same basis.
- (b) The adoption of the SSAP 12 (revised) represented a change in accounting policy which was applied retrospectively so that the comparatives presented were restated to conform with the changed policy.