



SUGA INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

A large, stylized, blue, 3D-effect logo of the word "SUGA" is centered on the page. The background is a blue-toned image of a globe with circuit-like patterns overlaid on it.

SUGA

Systematic Management

Understanding of Customers' requirements

Advanced Technology

Good Quality

2003 / 04
ANNUAL REPORT

CORPORATE PROFILE

Electronics Manufacturing Services (EMS) is becoming a global trend in information and electronics markets. At SUGA, with our innovative research and development (R&D) strategies and efficient manufacturing and logistic capabilities, we are making a name for ourselves as a new generation PROACTIVE EMS PROVIDER with a mission to lead the field in Asia.

SUGA: A proactive EMS provider combining

Systematic Management

Understanding of Customers' Requirements

Good Quality

Advanced Technology

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CORPORATE INFORMATION

Board of Directors

Executive

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

Non-executive

Mr. Shaw Kyle Arnold Junior

Independent Non-executive

Professor Wong Sook Leung, Joshua
Mr. Murase Hiroshi

Company Secretary

Ms. Chan Kwan Hei, Anthea

Audit Committee

Professor Wong Sook Leung, Joshua
Mr. Murase Hiroshi

Auditors

PricewaterhouseCoopers
Certified Public Accountants

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.
Mizuho Corporate Bank, Ltd.
Wing Hang Bank, Ltd.

Public Relations Consultant

Strategic Financial Relations Limited
Unit A 29th Floor
Admiralty Centre I
18 Harcourt Road Hong Kong

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

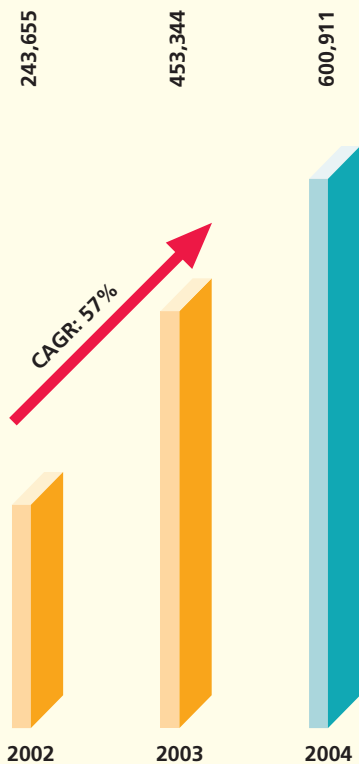
Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Contacts

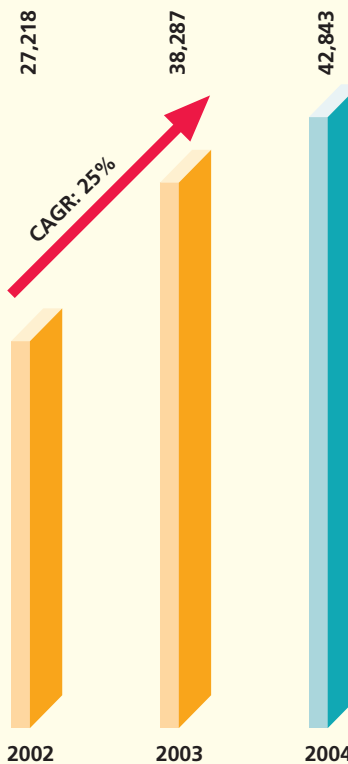
Telephone: (852) 2953 0383
Facsimile: (852) 2953 1523
Website: www.suga.com.hk
Stock code: 912

FINANCIAL HIGHLIGHTS

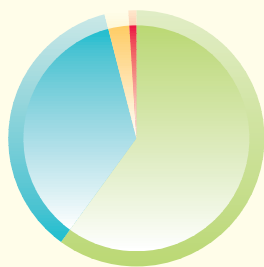
TURNOVER (HK\$'000)



PROFIT ATTRIBUTABLE TO SHAREHOLDERS(HK\$'000)

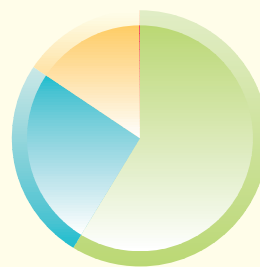


TURNOVER BY PRODUCT TYPES 2004



- 36% Consumer electronics appliances
- 60% Telecommunication products
- 3% Office automation products
- 1% Other products

TURNOVER BY GEOGRAPHICAL SEGMENTS 2004



- 58.7% Mainland China
- 25.7% The United States of America
- 15.5% Asia Pacific region (exluding Mainland China)
- 0.1% Europe

FINANCIAL HIGHLIGHTS

	2004 (HK\$'000)	2003 (HK\$'000) (restated)	2002 (HK\$'000)
OPERATING RESULTS			
Turnover	600,911	453,344	243,655
Gross profit	91,304	71,909	61,452
Operating profit	48,660	46,240*	34,282
Profit attributable to shareholders	42,843	38,287*	27,218
Earnings per share – Basic (HK cents)	20	22*	18
Interim dividend, paid, per share (HK cents)	2.5	2.5	–
Final dividend, proposed, per share (HK cents)	3.0	2.5	–
Special dividend, paid, per share (HK cents)	–	–	20
FINANCIAL POSITION			
Shareholders' equity	199,628	132,833	88,179
Net current assets	180,582	90,874	56,832
Net debt	34,223	24,271	11,045
Capital expenditure	13,373	17,162	31,822
Net assets value per share (HK cents)	88.3	66.4	58.8
FINANCIAL RATIOS			
Current ratio	1.96	1.78	1.95
Net debt to equity ratio	17.1%	18.2%	12.5%
Inventory turnover days	58	49	74
Debtors turnover days	90	62	77
Return on average equity	25.8%	34.6%*	36.5%

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



**ystematic
Management**

CHAIRMAN'S STATEMENT

To our Shareholders,

On behalf of the board of directors (the "Directors"), I am pleased to present the annual results of Suga International Holdings Limited (the "Company") and its subsidiaries (together "SUGA" or the "Group") for the year ended 31 March 2004.

Fiscal year 2004 has been successful for SUGA as our commitment to quality products and customer satisfaction enabled us to achieve a record turnover and profit. During the past year the Group was able to overcome the market challenges, such as SARS and declining market demand for handheld TVs, and continued to do well with its existing business in telecommunication and consumer electronics. We are now well positioned to continue the sales and profit momentum gained during this year into the future with the long standing customer relationships in combination with our strengths in R&D, manufacturing, distribution, and logistics capabilities. Fiscal year 2004 demonstrates our strengths in expanding sales and achieving operational efficiency, and our commitment to continue increasing shareholder's value in the long-term as a leading Electronic Manufacturing Services ("EMS") provider in Hong Kong and Mainland China.

FINANCIAL PERFORMANCE

SUGA achieved record turnover and profit figures for the year ended 31 March 2004 by pursuing new client opportunities, increasing our operating efficiencies, and leveraging our advanced technology and manufacturing capabilities. The overall sales by 33% to a robust HK\$601 million, with the telecommunication business segment experiencing the largest increase in sales. Operating profit rose 31% to HK\$49 million, and profit attributable to shareholders increased 47% to HK\$42.8 million (in both cases excluding the one-off gain of HK\$9 million from the disposal of a subsidiary in fiscal year 2003). This profit growth reflects our success in focusing on increasing customer orders and our continued commitment to lowering manufacturing costs and strengthening overall efficiency.

FINAL DIVIDEND

The Directors have recommended a final dividend of HK3.0 cents per share (2003: HK2.5 cents per share) to shareholders whose names appeared on the register of members of the Company on 19 August 2004. Together with the interim dividend of HK2.5 cents per share (2003: HK2.5 cents per share), total dividend for the year will amount to HK5.5 cents per share (2003: HK5.0 cents per share). The final dividend will be payable on or before 30 August 2004. The dividend payment is in line with our dividend goal of paying out to shareholders 25% or more of the Group's after tax profit.

BUSINESS OVERVIEW

Telecommunication

During the past year, SUGA's telecommunication business improved production capability and flexibility, allowing us to produce networking equipment that requires higher technological standards. As a result, sales increased 75% to HK\$360 million, making it our largest business segment. The increase was primarily driven by the escalating market demand for networking products in China, which we believe will continue in the future.

Our stringent quality control measures and proactive engineering support have enabled us to build a strong relationship with Beijing Harbour Networks Limited ("Harbour Networks"), one of the top network solution providers in the PRC market. This relationship has given us broad market recognition, which has, in turn, allowed us to secure new customers in the industry.

CHAIRMAN'S STATEMENT

In April 2004, we made the first shipment of new telephone products, including the key telephone systems and voice-over-internet-protocol ("VoIP") phones, to our long-standing Japanese customer, NEC. We believe that telephone products will become an important contributor to overall sales, as the trend of VoIP phones becomes more widely accepted worldwide.

In order to exploit the strong growth potential of the networking products market, 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 move has enabled us to fully capture the entire profit contribution from the networking product business. By purchasing this 15% stake by issuing 1,800,000 new shares, we also increased the market capitalization and liquidity of SUGA's shares.

Consumer Electronic Appliances

This business segment continues to grow steadily while maintaining higher profit margins. Sales of consumer electronic appliances, excluding handheld TVs, grew 20% and increased to HK\$218 million in fiscal year 2004. Sales of handheld TVs declined, as we anticipated, due to consumers shifting preferences towards digital audio-visual products.

Over the past year, we launched several new pet training devices, including tracking systems and chip scanners. These new products demonstrate our ability to excel at product development, and as there are more pets than people in America (according to the American Pet Products Manufacturers Association), we believe that our expertise in this market offers good growth opportunities.

Digital Audio-Visual ("A/V")

In view of the rapid growth of the worldwide digital A/V market, Suga Digital, a wholly-owned subsidiary, was set up in June 2004 to capitalize on the enormous opportunities in this market. During the past year, our R&D team has been developing a series of advanced digital A/V products.

The first digital A/V product, a portable MPEG-4 player, was introduced in October 2003 and subsequently received the "HKEIA Award for Outstanding Innovation and Technology Products" 2003 bronze award. First shipment will begin in July 2004. We believe this business will be a tremendous growth driver over the next few years.

Environmental Protection

Our continued efforts in implementing effective environmental protection measures were rewarded. We obtained the ISO14001 Environmental Management System accreditation in March 2004. In addition, we continued to adopt environmental friendly ideas such as lead-free production in our manufacturing processes. We are committed to continuously upgrading our business and operation processes with further enhancing environmental protection in mind.

Share placement

In order to broaden our shareholder's base and enhance stock market liquidity, SUGA successfully placed 20,000,000 new shares to independent institutional investors at HK\$1.40 in June 2003, raising a net proceed of HK\$27 million. This placement represented 9.1% of expanded capital, with the proceeds used to finance business development.

CHAIRMAN'S STATEMENT

LOOKING AHEAD

As a value-added EMS provider, we do more than simply manufacture products; we strive to anticipate and meet customer needs through design services, logistics planning, and stringent quality assurance processes. We are committed to investing in research and development and production capabilities. SUGA's integrated services enable us to respond quickly and efficiently to customer's requirements.

SUGA's telecommunication business is succeeding in capturing the rapidly growing market in the PRC. As our strategic partner, Harbour Networks, continues to expand, this business segment will be a significant revenue growth driver for the Group in the future. Our engagement to become the strategic manufacturer for NEC's key telephone systems and VoIP phones will also generate lucrative opportunities over the coming years. Our established market reputation will further enable us to secure new customers, which will further enrich our income stream. Stepping into fiscal year 2005, orders have increased sharply. The Group is processing 40% more orders over the same period last year.

Our consumer electronic business will continue to provide stable income to the Group. Well established in the American market, our pet training devices partner is planning to widen its product range and to expand its market share in the Asian market. With the expansion of R&D capabilities and the ability of providing a comprehensive range of logistics support based on our extensive knowledge of the PRC market, SUGA will be able to effectively assist the American partner in achieving its new product as well as market development goals. We believe this business will grow in parallel with our partner's growth.

Recognising that many of our existing customers wish to penetrate the PRC market, we have been relentless in improving our EMS leveraging our sales and distribution networks in Hong Kong and the PRC. To extend our networks further, we have introduced the "Nachus" Korean brand to create a sales and distribution channel. We believe that our sales and distribution channels, market knowledge, and logistics support will allow us to assist customers in their strategic objectives in the PRC market. SUGA's integrated manufacturing facilities, technical and logistics services, and PRC market knowledge make us their first choice as an EMS partner in Hong Kong and the PRC.

Appreciation

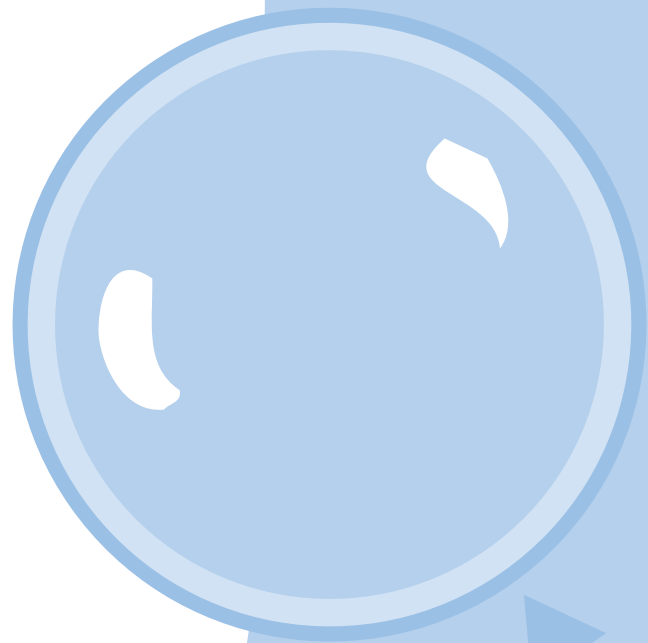
On behalf of SUGA, I would like to extend my gratitude to our customers and business partners for their business and support. I would also like to thank my colleagues for their hard work and continuous effort over the past year. Their excellent work has contributed significantly to our favorable results.

In summary, we are excited about SUGA's future. We have strong fundamentals, an experienced and capable workforce, and a healthy financial outlook to expand customer relationships, drive growth and profitability, and increase shareholder value.

NG Chi Ho

Chairman

Hong Kong, 29 June 2004



**Understanding
of Customers'
Requirements**

FINANCIAL REVIEW

Fiscal year 2004 was a year of record turnover and profit for the Group. Net profit for the year amounted to HK\$43 million, representing an increase of 47% if excluding the one-off gain of disposal of interests in a subsidiary in fiscal year 2003. Total turnover increased from HK\$453 million last year to HK\$601 million, representing an impressive increase of 33%. The Company's continued success in product development and improving efficiency were the primary reasons for record results achieved.

Turnover

Overall sales increased 33% or HK\$148 million over last year. The increase was primarily due to the continued growth of the Group's telecommunication products and consumer electronic appliances. Of the HK\$148 million increase in sales, the major portion was attributable to the networking products and pet training devices.

Telecommunication products became the Group's major income source, representing 60% of the total turnover. This business segment mainly comprises networking products and telephone products. During the year, sales of telecommunication products, driven by the escalating demand for networking products in Mainland China, increased by 75% to HK\$360 million.

Sales of consumer electronic appliances for the year amounted to HK\$218 million, grew by 2% over last year. The overall 20% increase in sales from consumer electronic products other than handheld TV was mostly offset by the decline in handheld TV which was the result of the consumers' shifting preference to digital audio-visual products. This business segment's contribution to the Group's total turnover decreased from 47% to 36%.

Office automation products recorded a decline in turnover. The decline was a result of the Group's strategies to develop high growth niche product business and downsize consignment business, in particular, the PCB assemblies of certain office automation products.

Geographically, Mainland China became the major market of the Group. Sales to Mainland China increased by 83% to HK\$353 million, representing 59% of the Group's turnover. Sales to The United States of America increased by 12% to HK\$154 million, representing 26% of the Group's turnover.

Profit Attributable to Shareholders

The Group's gross profit for the year amounted to HK\$91 million, up from HK\$72 million last year, representing an increase of 27%. Gross profit margin for the year was 15.2%, slightly edge down from 15.9%, as a result of the combined effects of the decrease in consignment sales and the substantial increase in sales of networking products which realize lower gross margin than the Group's other products. Although overall gross margin was 0.7% comparatively lower than that of last year, gross margins for networking products and consumer electronic appliances have both improved during the year as a result of improved efficiency and economy of scale.

Research and development expenses increased from HK\$0.6 million to HK\$1 million, representing approximately 0.2% of sales. Selling and administrative expenses moved up 22% this year. The increase in distribution and selling expenses as a percentage to sales from 1.7% to 1.9% was the result of the continued investment in sales force and marketing expenses. Although expenses rose, selling and administrative expenses as a percentage to sales trimmed down from 7.7% to 7.0%, reflecting our success in cost control. As a result, operating profit maintained at 8% to sales.

FINANCIAL REVIEW *(Continued)*

Profit Attributable to Shareholders *(Continued)*

While debt level increased to meet the growth in business, finance costs were basically flat with last year due to the lower of borrowing rates. Taxation expenses decreased from HK\$5.0 million in last year to HK\$2.4 million in this year.

Net profit margin improved to 7.0% from 6.4% last year while net profit achieved a record level of HK\$43 million, up by 47% over last year (in both cases excluding the one-off gain of HK\$9 million from the disposal of interests in a subsidiary). Return on average equity maintained at satisfactory level of 26%.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial resources and liquidity remained strong. As at 31 March 2004, the Group's cash and bank balances increased to HK\$66 million, compared to HK\$32 million last year while the current ratio increased from 1.78 to 1.96.

Net bank borrowings (after deducting cash and bank balances) as at balance sheet date were HK\$35 million compared to HK\$24 million last year. Net gearing ratio, calculated as net bank borrowings to equity, was 17%, that was comparable with last year. The increase in bank borrowings was primarily due to the increase in working capital resulting from the substantial growth in sales of networking products during the year. The mix of bank borrowings continued to shift in favour of long-term based funding, the balance between long-term and short term borrowings was 58%:42%. The Group currently has aggregate banking facilities of HK\$252 million provided by its principal bankers.

The Group continued to adopt tight control on receivable collection and inventory level. The increase in inventory balance was a result of the higher order book value at the balance sheet date. Accordingly, the Group's average inventory turnover days increased from 49 days to 58 days. The increase in receivable balance was the result of the combined effects of the substantial increase in sales of 54% in the last quarter of the year over the same period last year and longer credit terms granted to networking products customer as compared to other product customers. As a result, debtor turnover days increased to 90 days as compared to 62 days of last year. The increase in receivable was under good control and there was no significant bad debts during the year.

TREASURY POLICIES

The Group generally finances its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong. Banking facilities used by the Group include trust receipt loans, overdrafts, finance leases and term 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 and the Group does not have significant exposure to foreign exchange fluctuation.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As at 31 March 2004, the Group did not pledge any of its assets (2003: nil) as securities for banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 March 2004, the Company had provided guarantees of approximately HK\$136 million to several bankers to secure banking facilities of its subsidiaries, and the Group did not have other significant contingent liabilities.

EMPLOYEES

As at 31 March 2004, the Group had approximately 1,300 employees, of which 70 were based in Hong Kong while the rest were in the PRC. Competitive remuneration packages are structured to commensurate our employees with individual job duties, qualification, performance and years of experience. In addition to basic salaries and mandatory provident fund, the Group offers staff benefits including medical schemes, educational sponsorship subsidies, and 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 since the date of adoption.



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Quality

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. NG Chi Ho, aged 54, 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 27 years of management experience in the electronic 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 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 46, is the Vice 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 11 years and has over 22 years of experience in the electronic industry. He graduated from the Hong Kong Polytechnic University with a higher diploma in electronic engineering.

Mr. FUNG Chi Leung, Mark, aged 40, is the Executive Director of the Group. Mr. Fung is responsible for overseeing the implementation of the corporate strategy on sales and marketing of the Group. He holds a bachelor degree in science from the University of Toronto in Canada. Mr. Fung joined the Group in 1991 and has over 17 years of working experience in electronic sales and marketing. He is a committee member and chairman of the Contracting Manufacturing Solution Group of the America Hong Kong Electronics Association.

Mr. WONG Wai Lik, Lamson, aged 40, is the Executive Director of the Group. He is in charge of 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 17 years of experience in production operations and supervision.

NON-EXECUTIVE DIRECTOR

Mr. SHAW, Kyle Arnold Junior, aged 43, is a non-executive Director. He 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 15 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.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WONG Sook Leung, Joshua, aged 65, 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.

Mr. MURASE Hiroshi, aged 66, 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 of 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.

SENIOR MANAGEMENT

Ms. CHAN Kwan Hei, Anthea, aged 34, is the Financial Controller, the Qualified Accountant and the Company Secretary of the Group. She is responsible for the overall 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 Society of Accountants and a fellow member of The Association of Chartered Certified Accountants, the UK. She joined the Group in 1992 and has over 12 years of experience in accounting, finance and company secretary.

Mr. KONG Ka Kong, Kenneth, aged 35, 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 10 years of experience in the pet industry. Mr. Kong holds a diploma in management studies from the Hong Kong Polytechnic University.

Ms. WONG Sin, Kathy, aged 34, 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 with a bachelor degree in mechanical engineering from the Tinjing University in the PRC. She joined the Group in 2002 and has over 12 years of experience in the networking manufacturing industry.

Mr. LIU Ji Feng, aged 35, is the General Manager of the trading business of the Group and is responsible for the sales of office automation products of the Group. He joined the Group in 1994 and has over 12 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.

Ms. DENG Hong, Maggie, aged 35, is the General Manager of the distribution division of the Group and is responsible for the sales and distribution of consumer electronics 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 13 years of sales experience in electronic products, particularly with rich experience in the markets of Hong Kong, Mainland China and Singapore.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT *(Continued)*

Mr. CHAN Kwan Man, Raymond, aged 38, is the Senior Manager of the distribution division of the Group and is responsible for the sourcing and engineering support functions of the division. Mr. Chan joined the Group in 1994 and has over 14 years of experience in electronics industry. He gained his bachelor degree in science from the Hong Kong Polytechnic University.

Ms. LAM Nga Yin, Irene, aged 31, is the Marketing Manager of the distribution division of the Group and is responsible for the sales and marketing of consumer electronics products. 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 to joining the Group, she has over 6 years of experience in sales and marketing.

Mr. YU Ming Lung, Sam, aged 27, is the Business Development Manager of the digital A/V division of the Group and is responsible for the overall business development and operation of the division. Mr. Yu holds a bachelor degree in computer engineering and a master of philosophy degree from the University of Hong Kong. He joined the Group in 2002 and has over 4 years experience in information technology and electronic industry.

Mr. Aaron Sheldon CHIN, aged 33, is the Project Manager of the digital A/V division of the Group and is responsible for the research and development function of the division. Mr. Chin holds a bachelor degree in electrical and electronic engineering from the University of Hong Kong in 1992. He joined the Group in 2004 and has more than 12 years of experience in research and development of innovative electronic products.

Mr. LEE Hung Bun, Ben, aged 32, is the Project Manager of the digital A/V division of the Group and is responsible for the research and development function of the division. Mr. Lee received his bachelor degree in electronic engineering from the City University of Hong Kong in 1995. He joined the Group in 2004 and has more than 9 years of experience in research and development of innovative electronic products.

Mr. YEUNG Wai Hung, Jimmy, aged 35, is the Business Manager of the EMS division of the Group. Mr. Yeung joined the Group in 2002 and is responsible for the sales and marketing functions of the division. Mr. Yeung graduated from the Hong Kong Polytechnic University with a higher diploma in manufacturing engineering and has over 11 years of experience in electronic industry.

Mr. MAO Jian Quan, aged 33, is the Senior Production Industrial Engineering Manager of the EMS division of the Group and is responsible for the technical servicing, productivity improvement and equipment control of the division. He holds a bachelor degree of engineering from the Shanxi Technology and Mechanical Institute in the PRC. He joined the Group in 1994 and has over 10 years of experience in the electronic manufacturing industry.

Mr. ZHU Wan Zong, aged 46, is the Senior Quality Assurance Manager of the EMS division of the Group and is responsible for the overall quality assurance functions of the division. He graduated with a bachelor degree in automation engineering from the Kunming University of Science and Technology in the PRC. He joined the Group in 1995 and has over 22 years of experience in the electronic manufacturing industry.

Mr. LAU Kai Hei, aged 31, is the MIS Manager of the Group and is responsible for the operations and management of the Group's MIS Department. He holds a bachelor degree in engineering from the University of Hong Kong and has over 8 years of working experience in information technology.



**Advanced
Technology**

REPORT OF THE DIRECTORS

The Directors are pleased to present to the shareholders their report and the audited accounts of the Company and the Group for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its principal subsidiaries are engaged in the research and development, manufacture and sales 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

The results of the Group for the year ended 31 March 2004 are set out in the consolidated profit and loss account on page 29.

DIVIDENDS

An interim dividend of HK2.5 cents per share was paid during the year.

The Directors have recommended a final dividend of HK3.0 cents per share, to be paid on or before 30 August 2004 to the shareholders whose names appear on the register of members of the Company on 19 August 2004. The proposed final dividend, together with the interim dividend paid, will amount to a total of HK5.5 cents per share.

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 67.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 25 to the accounts.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 26.

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

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 March 2004 calculated under the Company Act of Bermuda amounted to HK\$71,807,000 (2003: HK\$70,473,000).

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year and up to the date of this report were:

Executive Directors

Mr. NG Chi Ho (*Chairman*)
Mr. MA Fung On (*Vice Chairman*)
Mr. FUNG Chi Leung Mark
Mr. WONG Wai Lik Lamson

Non-executive Director

Mr. SHAW Kyle Arnold Junior

Independent Non-executive Directors

Professor WONG Sook Leung Joshua
Mr. MURASE Hiroshi

The non-executive Director and independent non-executive Directors are appointed for specific terms and hold office until 31 October 2004 and 31 March 2005 respectively.

At the forthcoming annual general meeting, Mr. FUNG Chi Leung, Mark will retire from office by rotation in accordance with bye-law 111 of the Company's Bye-laws and being eligible, offer himself for re-election.

The Company received confirmation of independence in respect of the year ended 31 March 2004 from each of the independent non-executive Directors pursuant to Rule 3.13 of the amended Listing Rules. Up to and as at the date of this report, the Company still considers the independent non-executive Directors to be independent.

Each of Mr. NG Chi Ho, Mr. FUNG Chi Leung, Mark and Mr. WONG Wai Lik, Lamson, all being executive Directors, has entered into a service contract with the Company for an initial fixed term of three years commencing from 1st 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.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management as at the date of this report are set out in pages 14 to 16 of this annual report.

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 had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 17 September 2002 (the "Share Option Scheme").

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;

SHARE OPTION SCHEME *(Continued)*

2. Eligible participants of the Share Option Scheme *(Continued)*

- (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.

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 1,450,000, which represented approximately 0.64% 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 exceed 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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

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.

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 2004 under the Share Option Scheme are as follows:–

Category	Number of share options				Outstanding at 31 March 2004	Exercise price (HK\$)	Date of Grant	Exercise Period
	Outstanding at 1 April 2003	Granted during the year	Exercised during the year	Lapsed during the year				
Directors								
Mr. NG Chi Ho	–	2,000,000	2,000,000	–	–	1.23	5 May 2003	5 May 2003 – 4 May 2008
Mr. MA Fung On	–	1,800,000	730,000	–	1,070,000	1.23	5 May 2003	5 May 2003 – 4 May 2008
Mr. FUNG Chi Leung Mark	–	1,800,000	–	–	1,800,000	1.23	5 May 2003	5 May 2003 – 4 May 2008
Mr. WONG Wai Lik Lamson	–	1,800,000	500,000	–	1,300,000	1.23	5 May 2003	5 May 2003 – 4 May 2008
Continuous contract employees								
	–	4,900,000	910,000	50,000 [#]	3,940,000	1.23	5 May 2003	5 May 2003 – 4 May 2008
	–	12,300,000	4,140,000	50,000	8,110,000			

[#] The share options lapsed during the year following the resignation of one employee.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Details of the share option movements during the period from 1 April 2004 to 29 June 2004 under the Share Option Scheme are as follows:

Category	Number of share options				Outstanding at 29 June 2004	Exercise price (HK\$)	Date of Grant	Exercise Period
	Outstanding at 1 April 2004	Granted during the period	Exercised during the period	Lapsed during the 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	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. SHAW, Kyle Arnold Junior	-	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			

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2004, the interests of the Directors in the shares, underlying shares and debentures of the Company or any of its associated companies (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:–

(a) Interests in shares of the Company

	Number of ordinary share of HK\$0.10 each						
	Personal interests	Corporate interests	Family interests	Trust/similar interests	Person acting in concert	Other interests	Total interests
Mr. NG Chi Ho	2,000,000	28,100,000 (Note 1)	100,000,000 (Note 2)	-	-	-	130,100,000
Mr. MA Fung On	730,000	9,000,000 (Note 3)	-	-	-	-	9,730,000
Mr. FUNG Chi Leung, Mark	-	3,000,000 (Note 4)	-	-	-	-	3,000,000
Mr. WONG Wai Lik, Lamson	500,000	-	-	-	-	-	500,000
Professor WONG Sook Leung Joshua	100,000	-	-	-	-	-	100,000

Notes:

- 28,100,000 shares are held by Billion Linkage Limited, the entire issued shares of which are held by Mr. Ng and his spouse in equal share.
- 100,000,000 shares are held by Superior View Inc., the entire issued shares 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.
- 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.
- 3,000,000 shares are held by Able Asset Developments Limited, the entire issued share capital of which is held by Mr. FUNG Chi Leung, Mark.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(b) Interests in underlying shares of equity derivatives of the Company

Share options were granted to certain Directors of the Company pursuant to the Share Option Scheme. Details of the Directors' interests in share options granted by the Company are set out under the heading "Share Options Scheme" of this report.

(c) Interests in associated corporation

Each of Mr. NG Chi Ho, Mr. MA Fung On and Mr. FUNG Chi Leung, Mark is interested in the following non-voting deferred shares of HK\$1 each in Suga Electronics Limited:

<u>Name of shareholder</u>	<u>Number of non-voting deferred shares</u>
Essential Mix Enterprises Limited (Note)	3,200,000
Broadway Business Limited (Note)	800,000

Note: The entire issued share capital of each Essential Mix Enterprises Limited and Broadway Business Limited is held as to 92% by Mr. NG Chi Ho, 6% by Mr. MA Fung On and 2% by Mr. FUNG Chi Leung Mark. 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, as at 31 March 2004, none of the directors and chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register kept under Section 352 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

In the opinion of the Directors, there is no such competing business as defined in the Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 March 2004, the interests and short positions of the shareholders of the Company, other than the directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

<u>Name of Shareholder</u>	<u>Number of ordinary shares</u>	<u>Shareholding percentage</u>
Superior View Inc. (Note 1)	100,000,000	44.26%
Billion Linkage Limited (Note 2)	28,100,000	12.44%
Shaw, Kwei & Partners (Asia) Limited	11,500,000	5.09%

REPORT OF THE DIRECTORS

INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARE CAPITAL OF THE COMPANY

(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 SFO.

Save as disclosed above, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO as at 31 March 2004.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed 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.

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.

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.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's largest customer for the year accounted for approximately 56.1% of the Group's total turnover and the five largest customers accounted for approximately 94.8% of the Group's total turnover. In addition, the largest supplier of the Group accounted for approximately 10.4% of the Group's purchases while the five largest suppliers of the Group accounted for approximately 32.5% 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 an interest in the Group's major suppliers or customers noted above.

REPORT OF THE DIRECTORS

DISCLOSURE OF TRADE RECEIVABLES PURSUANT TO RULES 13.13 AND 13.15 OF THE LISTING RULES

As at 31 March 2004, there were 225,940,000 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$1.31 as stated in the Stock Exchange's daily quotation sheets for the trading days from 24 March 2004 to 30 March 2004 (both days inclusive), being the five business days immediately preceding 31 March 2004, the total market capitalization of the Company was approximately HK\$295.9 million as at 31 March 2004.

As at 31 March 2004, trade receivables from Beijing Harbour Networks Limited ("**BHNL's Trade Receivables**") (which is independent of and not connected with the Directors, chief executives or substantial shareholders of the Company or its subsidiaries, or their respective associates or not otherwise a connected person of the Company within the meaning of the Listing Rules) and/or its subsidiaries and related companies amounted to approximately HK\$141 million. BHNL's Trade Receivables represent approximately 47.7% of the total market capitalization of the Company as at 31 March 2004. The BHNL's Trade Receivables are unsecured, interest-free and with credit terms of 90 days.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate the Company is not, or was not for any part of the accounting period covered by this annual report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive Directors have not been appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

AUDIT COMMITTEE

The audit committee of the Company now comprises two independent non-executive Directors. The committee meets regularly to review the accounting principles and practices adopted by the Group, discuss internal control and financial reporting matters including the interim and annual financial statements.

AUDITORS

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

On behalf of the board of directors

Suga International Holdings Limited

NG Chi Ho

Chairman

Hong Kong, 29 June 2004

AUDITORS' REPORT



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 29 to 66 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 Society of 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 2004 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, 29 June 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2004

	Note	2004 HK\$'000	2003 HK\$'000 (restated)
Turnover	3	600,911	453,344
Cost of sales		(509,607)	(381,435)
Gross profit		91,304	71,909
Interest income	3	343	154
Research and development costs		(1,023)	(605)
Distribution and selling expenses		(11,261)	(7,853)
General and administrative expenses		(30,703)	(26,441)
Gain on disposal of interest in a subsidiary		-	9,076
Operating profit	5	48,660	46,240
Finance costs	6	(2,378)	(2,459)
Profit before taxation		46,282	43,781
Taxation	7	(2,376)	(5,069)
Profit after taxation		43,906	38,712
Minority interests		(1,063)	(425)
Profit attributable to shareholders	10	42,843	38,287
Dividends	11	12,414	10,533
Earnings per share – basic	12	HK20 cents	HK22 cents
Earnings per share – diluted	12	HK19 cents	N/A

BALANCE SHEETS

AS AT 31 MARCH 2004

	Note	Consolidated		Company	
		2004 HK\$'000	2003 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000
Non-current assets					
Property, plant and equipment	13	66,598	62,755	-	-
Negative goodwill/goodwill	14	(9,263)	(10,990)	-	-
Deferred development cost	14	1,333	-	-	-
Investment in subsidiaries	15	-	-	145,242	109,114
Unlisted investments	16	3,810	3,510	-	-
Deferred tax assets	23	412	-	-	-
Total non-current assets		62,890	55,275	145,242	109,114
Current assets					
Inventories	17	95,184	66,040	-	-
Trade receivables	18	195,546	101,794	-	-
Prepayments, deposits and other receivables		12,090	6,824	81	-
Unlisted investments	16	-	780	-	-
Cash and bank deposits	19	66,150	31,603	263	7
Total current assets		368,970	207,041	344	7
Current liabilities					
Short-term bank borrowings, secured	20	41,826	41,215	-	-
Current portion of secured long-term bank loan	21	16,485	3,334	-	-
Trade payables	22	115,371	54,673	-	-
Accruals and other payables		4,637	5,081	10	-
Obligations under finance leases – current portion	24	2,967	2,841	-	-
Taxation payable		7,102	9,023	-	-
Total current liabilities		188,388	116,167	10	-
Net current assets		180,582	90,874	334	7
Total assets less current liabilities		243,472	146,149	145,576	109,121
Financed by:					
Share capital	25	22,594	20,000	22,594	20,000
Other reserves	26	64,194	31,667	116,047	83,520
Retained profit	26	106,062	75,666	157	101
Proposed dividend	26	6,778	5,500	6,778	5,500
Shareholders' funds		199,628	132,833	145,576	109,121
Minority interests		-	440	-	-
Non-current liabilities					
Long-term bank loan, secured	21	35,522	1,943	-	-
Obligations under finance leases	24	3,573	6,541	-	-
Deferred tax liabilities	23	4,749	4,392	-	-
Total non-current liabilities		43,844	12,876	-	-
Total assets less current liabilities		243,472	146,149	145,576	109,121

NG CHI HO
CHAIRMAN

MA FUNG ON
VICE CHAIRMAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2004

	Note	2004 HK\$'000	2003 HK\$'000 (restated)
Total equity at 1 April, as previously reported		133,567	88,179
Effect of the adoption of SSAP12 (revised)	2(m)	(734)	–
Total equity at 1 April, as restated		132,833	88,179
Exchange differences arising on translation of the accounts of foreign subsidiaries		–	2,428
Goodwill written back upon disposal of interest in a subsidiary		–	491
Net gains not recognised in the profit and loss account		132,833	91,098
Profit for the year	26	42,843	38,287
Dividends	26	(11,169)	(35,000)
Issue of shares for cash	25 & 26	28,000	50,000
Share issue expenses	26	(671)	(11,552)
Issue of shares on acquisition of additional interests in a subsidiary	25 & 26	2,700	–
Issue of shares upon exercise of share options	25 & 26	5,092	–
Total equity at 31 March		199,628	132,833

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2004

	Note	2004 HK\$'000	2003 HK\$'000
Net cash outflow from operations	27(a)	(12,223)	(5,351)
Hong Kong profits tax paid		(4,075)	(2,411)
Taxation outside Hong Kong		(278)	(573)
Net cash outflow from operating activities		(16,576)	(8,335)
Investing activities			
Purchase of property, plant and equipment		(11,559)	(10,302)
Proceeds from disposal of property, plant and equipment		–	33
Deferred development costs capitalised		(1,814)	–
Net cash outflow in respect of disposal of interest in a subsidiary		–	(2,033)
Proceeds on disposal/(acquisition) of other investments		780	(780)
Interest received		343	154
Decrease in pledged bank deposits		–	3,167
Net cash outflow from investing activities		(12,250)	(9,761)
Net cash outflow before financing activities		(28,826)	(18,096)
Financing activities	27(b)		
Issue of shares		33,092	50,000
Share issuance expenses		(671)	(11,552)
Capital injection by minority shareholder of a subsidiary		–	15
New long-term bank loan		53,000	–
Repayment of long-term bank loan		(6,270)	(3,334)
Repayment of capital element of finance lease obligations		(2,842)	(2,128)
Interest element of finance lease payments		(126)	(347)
Increase in trust receipts bank loans		4,036	21,241
Repayment of balance due from a related company		–	13,893
Interest paid		(2,252)	(2,112)
Dividends paid		(11,169)	(35,000)
Net cash inflow from financing activities		66,798	30,676
Increase in cash and cash equivalents		37,972	12,580
Cash and cash equivalents, beginning of year		28,178	15,598
Cash and cash equivalents, end of year	27(d)	66,150	28,178

NOTES TO THE ACCOUNTS

1. GROUP REORGANISATION AND OPERATIONS

Suga International Holdings Limited (the "Company") was incorporated in Bermuda on 28th September 2001 under the Companies Act 1981 of Bermuda as an exempted company with limited liability. The Company is an investment holding company and its subsidiaries are principally engaged in the manufacturing and sales of electronics products. The Company's shares have been listed on The Stock Exchange of Hong Kong Limited ("the "Stock Exchange") since 18 September 2002.

Pursuant to a group reorganisation (the "Reorganisation") in preparation of the listing of the shares of the Company on the Stock Exchange, the Company acquired the entire issued share capital of Suga International Limited through a share swap and became the holding company of the companies now comprising the group on 23 August 2002. The group reorganisation involved companies under common control and the Company and its subsidiaries (together referred to as the "Group") 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 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.

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 Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that unlisted investments are stated at fair value.

In the current year, the Group adopted SSAP 35 "Government Grants and Disclosure of Government Assistance" and SSAP 12 "Income Taxes" issued by the HKSA which are effective for accounting periods commencing on or after 1 July 2002 and 1 January 2003, respectively. The changes to the Group's accounting policies and the effect of adopting these new policies are set out below.

(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.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting *(Continued)*

(i) Consolidation *(Continued)*

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

The gain or loss on the 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.

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

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

(ii) 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.

The balance sheet of subsidiaries 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 included in intangible assets and is amortised using the straight-line method over its estimated useful life of 19 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.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Intangibles (Continued)

(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.

(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.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) **Property, plant and equipment** *(Continued)*

(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.

(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 acquisition 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.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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 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.

(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 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.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Employee benefits *(Continued)*

(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.

(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, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

The adoption of the SSAP 12 (revised) represents a change in accounting policy which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. In this connection, the retained profit at 1 April 2003 was reduced by HK\$734,000 which represented the cumulative effect on prior years' profit on unprovided net deferred tax liabilities. In addition, negative goodwill on acquisition of a subsidiary as at 31 March 2003 was reduced by HK\$3,658,000; while deferred tax liabilities as at 31 March 2003 was increased by HK\$4,392,000. The profit for the year ended 31 March 2003 was reduced by HK\$734,000.

(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.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) **Contingent liabilities and contingent assets** *(Continued)*

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. The Group's sales made in Mainland China are subject to value-added tax ("VAT") in Mainland China at a rate of 17% ("output VAT"). Such output VAT is payable after offsetting VAT paid by the Group on purchases. Interest income is recognised on a time proportion basis that takes into account the effective yield on the assets.

(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.

NOTES TO THE ACCOUNTS

3. TURNOVER AND REVENUE

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

Revenues recognised during the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sales of electronic products		
– consumer electronic appliances	218,326	213,988
– telecommunication products	360,292	205,701
– office automation products	14,726	14,460
– other products	3,621	6,860
Contract processing service on		
– office automation products	3,946	12,335
Total turnover	600,911	453,344
Other revenue		
– Interest income	343	154
Total revenue	601,254	453,498

NOTES TO THE ACCOUNTS

4. SEGMENT INFORMATION

(a) Primary reporting format – business segments:

The Group has categorised its business segment by product types into consumer electronics appliances, telecommunication products, office automation products and other products. An analysis of the Group's segment information by business segment is set out as follows:

	Consumer electronics appliances HK\$'000	Telecommuni- cation products HK\$'000	2004 Office automation products HK\$'000	Other products HK\$'000	Total HK\$'000
Turnover	218,326	360,292	18,672	3,621	600,911
OPERATING RESULTS					
Operating profit	18,964	26,883	2,264	206	48,317
Interest income					343
Interest expense					(2,378)
Taxation					(2,376)
Minority interests					(1,063)
Profit attributable to shareholders					42,843
Segment assets	124,118	213,843	9,481	1,956	349,398
Unallocated assets					82,462
					431,860
Segment liabilities	22,498	96,434	740	336	120,008
Unallocated liabilities					112,224
					232,232
Other information					
Depreciation and amortisation	4,190	2,808	89	69	7,156
Capital expenditures	9,564	3,525	157	127	13,373

NOTES TO THE ACCOUNTS

4. SEGMENT INFORMATION *(Continued)*

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

	2003 (restated)				
	Consumer electronics appliances HK\$'000	Telecommuni- cation products HK\$'000	Office automation products HK\$'000	Other products HK\$'000	Total HK\$'000
Turnover	213,988	205,701	26,795	6,860	453,344
OPERATING RESULTS					
Operating profit	25,136	8,176	3,222	476	37,010
Gain on disposal of interest in a subsidiary					9,076
Interest income					154
Interest expense					(2,459)
Taxation					(5,069)
Minority interests					(425)
Profit attributable to shareholders					38,287
Segment assets	107,470	97,961	10,722	3,446	219,599
Unallocated assets					42,717
					262,316
Segment liabilities	25,226	31,702	2,018	808	59,754
Unallocated liabilities					69,289
					129,043
Other information					
Depreciation and amortisation	4,512	996	102	77	5,687
Capital expenditures	9,229	7,590	187	156	17,162

NOTES TO THE ACCOUNTS

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

	2004		2003	
	Turnover HK\$'000	Segment results HK\$'000	Turnover HK\$'000	Segment results HK\$'000 (restated)
Mainland China	352,825	22,536	193,294	4,301
The United States of America	154,438	20,740	138,302	21,735
Asia Pacific region (excluding Mainland China)	93,196	5,026	119,844	10,663
Europe	452	15	1,904	311
	600,911	48,317	453,344	37,010

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

	2004		2003	
	Segment assets HK\$'000	Capital expenditure HK\$'000	Segment assets HK\$'000 (restated)	Capital Expenditure HK\$'000
Mainland China	294,144	7,680	192,000	9,537
Hong Kong	137,716	5,693	70,316	7,625
	431,860	13,373	262,316	17,162

NOTES TO THE ACCOUNTS

5. OPERATING PROFIT

Operating profit is stated after charging and crediting the following:

	2004 HK\$'000	2003 HK\$'000
Charging		
Cost of inventories sold	495,094	365,468
Depreciation of property, plant and equipment		
– owned assets	5,311	3,846
– assets held under finance leases	2,374	2,449
Loss on disposal of property, plant and equipment	31	105
Operating lease rental of premises	1,506	2,493
Staff costs (Note 8)	26,362	25,522
Provision for bad and doubtful debts	481	621
Net exchange loss	247	1,394
Auditors' remuneration	790	765
Amortisation of goodwill (included in general and administrative expenses)	79	–
Crediting		
Amortisation of negative goodwill (included in general and administrative expenses)	608	608

6. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on:		
– bank loans wholly repayable within five years	2,252	2,112
– obligations under finance leases	126	347
	2,378	2,459

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 at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

NOTES TO THE ACCOUNTS

7. TAXATION (Continued)

(c) PRC enterprise income tax

Suga Electronics (Shenzhen) Co., Ltd. and Suga Networks Equipment (Shenzhen) Limited ("SNESSL") are subsidiaries established in the People's Republic of China ("PRC"). They are subject to PRC enterprise income tax ("EIT") of 15% on their taxable income. SNESSL is 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. SNESSL started to make profit in 2003.

(d) Others

The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and are exempted from British Virgin Islands income taxes.

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

	2004	2003
	HK\$'000	HK\$'000
		(restated)
Current taxation:		
– Hong Kong profits tax	2,230	4,800
– Taxation outside Hong Kong	201	771
Deferred taxation relating to the origination and reversal of temporary differences	(55)	(502)
Taxation	2,376	5,069

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:

	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	46,282	43,781
Calculated at a taxation rate of 17.5% (2003: 16%)	8,099	7,005
Effect of different taxation rates on income arising outside Hong Kong	33	71
Tax loss not recognised	854	1
Expenses not deductible for taxation purpose	5	430
Income not subject to taxation	(616)	(1,956)
Income exempted from taxation	(5,984)	(453)
Utilisation of previously unrecognised tax losses	(15)	(29)
Taxation charge	2,376	5,069

NOTES TO THE ACCOUNTS

8. STAFF COSTS

Staff costs, including directors' emoluments, represents:

	2004 HK\$'000	2003 HK\$'000
Wages and salaries	20,623	20,357
Bonus	674	133
Unutilised annual leave	60	260
Pension costs – defined contribution plans	1,356	1,161
Staff welfare	3,649	3,611
	26,362	25,522

9. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

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

	2004 HK\$'000	2003 HK\$'000
Directors' fees		
– independent non-executive directors	–	–
– non-executive director	204	85
Other emoluments payables to executive directors		
– basic salaries, allowances and other benefits in kind	5,185	3,788
– contribution to retirement scheme	331	264
	5,720	4,137

The emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
Emoluments bands		
HK\$Nil – HK\$1,000,000	6	6
HK\$2,000,001 – HK\$2,500,000	1	1
	7	7

During the year, 7,400,000 (2003: Nil) options were granted to the directors under the share option scheme adopted by the Company on 17 September 2002. The market value per share at the date of grant is HK\$1.23 (2003: Nil). The difference between the aggregate amount of the market prices at the date of exercise of shares acquired and consideration by the directors under the option scheme during the year have been included as other benefit in kind above. Refer to note 25 for details of options granted and exercised during the year.

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 four (2003: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual (2003: two individuals) during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, allowances and other benefits in kind	650	996
Contribution to retirement scheme	33	50
	683	1,046

The emoluments fell within the following band:

	Number of individuals	
	2004	2003
Emolument bands		
HK\$Nil – HK\$1,000,000	1	2

- (c) No emoluments were paid to the directors or the five highest paid individuals as an inducement to join or upon jointly 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\$12,503,000 (2003: HK\$10,601,000).

11. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim dividend, paid, of HK2.5 cents (2003: HK2.5 cents) per ordinary share	5,636	5,000
Final dividend, proposed, of HK3 cents (2003: paid, of HK2.5 cents) per ordinary share	6,778	5,533
	12,414	10,533

At a meeting held on 29 June 2004, the directors proposed a final dividend of HK3 cents per ordinary share. This proposed dividend is not reflected as dividend payable in these accounts (Note 26).

NOTES TO THE ACCOUNTS

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\$42,843,000 (2003 as restated: HK\$38,287,000). The basic earnings per share is based on the weighted average number of 218,878,000 (2003: 176,986,000) shares in issue during the year. The diluted earnings per share for the year ended 31 March 2004 is based on 220,224,000 ordinary shares which is 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 options had been exercised.

No information in respect of diluted earnings per share is presented for the year ended 31 March 2003 as the Company had no potential dilutive ordinary shares in existence during the year ended 31 March 2003.

13. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Land and buildings	Leasehold improve- ments	Plant and machinery	Furniture and equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1 April 2003	38,500	10,167	34,484	13,158	96,309
Additions	–	994	7,137	3,428	11,559
Disposals	–	–	–	(69)	(69)
At 31 March 2004	38,500	11,161	41,621	16,517	107,799
Accumulated depreciation					
At 1 April 2003	1,565	4,888	19,963	7,138	33,554
Charge for the year	939	991	4,237	1,518	7,685
Disposals	–	–	–	(38)	(38)
At 31 March 2004	2,504	5,879	24,200	8,618	41,201
Net book value					
At 31 March 2004	35,996	5,282	17,421	7,899	66,598
At 31 March 2003	36,935	5,279	14,521	6,020	62,755

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:

	2004 HK\$'000	2003 HK\$'000
Cost	13,041	13,041
Less: Accumulated depreciation	(5,490)	(3,116)
Net book value	7,551	9,925

14. INTANGIBLE ASSETS

Movements of intangible assets during the year are as follows:

	Negative Goodwill HK\$'000	Goodwill HK\$'000	Group Sub-total HK\$'000	Deferred development costs HK\$'000	Total HK\$'000
Year ended 31 March 2004					
Opening net book amount, as previously reported	(14,648)	–	(14,648)	–	(14,648)
Effect of adoption of HKSSAP 12 (revised) (Note 2(m))	3,658	–	3,658	–	3,658
Opening net book amounts, as restated	(10,990)	–	(10,990)	–	(10,990)
Acquisition of additional interests in a subsidiary	–	1,198	1,198	–	1,198
Development costs recognised as asset	–	–	–	1,814	1,814
Government grants	–	–	–	(481)	(481)
Amortisation (Note 5)	608	(79)	529	–	529
Closing net book amount	(10,382)	1,119	(9,263)	1,333	(7,930)
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)
At 31 March 2003					
Cost	(12,154)	–	(12,154)	–	(12,154)
Accumulated amortisation	1,164	–	1,164	–	1,164
Net book amount, as restated	(10,990)	–	(10,990)	–	(10,990)

NOTES TO THE ACCOUNTS

15. INVESTMENT IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	65,072	65,072
Due from subsidiaries	80,170	44,042
	145,242	109,114

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 2004.

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 2004 are as follows:

Name	Place incorporation/ establishment and kind of legal entity	Issued share capital/ Paid-up capital	Group equity interest (iv)		Principal activities and place of operation
			2004	2003	
Net-Tech Products Limited	Hong Kong, limited liability company	Ordinary shares HK\$2	100%	–	Trading of electronic products in Hong Kong
Pets & Supplies Hong Kong Limited	Hong Kong, limited liability company	Ordinary shares HK\$2	100%	100%	Trading of pet products in Hong Kong
Speedy Source Limited	Hong Kong, limited liability company	Ordinary shares HK\$2	100%	100%	Trading of electronic products in Hong Kong
Suga Electronics (Shenzhen) Co., Ltd. (ii)	PRC, limited liability company	HK\$33,500,000	100%	100%	Manufacturing of electronic products in PRC
Suga Electronics Limited	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

NOTES TO THE ACCOUNTS

15. INVESTMENT IN SUBSIDIARIES (Continued)

Name	Place incorporation/ establishment and kind of legal entity	Issued share capital/ Paid-up capital	Group equity interest (iv)		Principal activities and place of operation
			2004	2003	
Suga International Limited	British Virgin Islands, limited liability company	Ordinary shares US\$700	100%	100%	Investment holding in Hong Kong
Suga Networks Equipment (Shenzhen) Co. Ltd. (the "SNE SL") (iii)	PRC, limited liability company	HK\$3,500,000 (iii)	100%	85%	Manufacturing of networking devices in PRC
Suga Networks Hong Kong Limited	Hong Kong, limited liability company	Ordinary shares HK\$100,000	100%	85%	Trading of networking devices 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
Typhoon International Limited	British Virgin Islands, limited liability company	Ordinary shares US\$1	100%	100%	Property holding in PRC

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, Mr. Ma Fung On and Mr. Fung Chi Leung, Mark, directors and beneficial shareholders of the Company. 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) SNE SL is a wholly foreign owned enterprise established in PRC with an approved period of operation of 20 year until October 2022. The total registered capital of SNE SL is HK\$10,000,000, of which HK\$3,500,000 was paid up as at 31 March 2004.
- (iv) The shares of Suga International Limited are held directly by the Company. The shares of the other subsidiaries are held indirectly.
- (v) None of the subsidiaries had any loan capital in issue at any time during the year ended 31 March 2004.

NOTES TO THE ACCOUNTS

16. UNLISTED INVESTMENTS

Unlisted investments represent investment funds in Hong Kong.

	2004	Group
	HK\$'000	2003 HK\$'000
Long-term unlisted investments	3,810	3,510
Short-term unlisted investments	–	780
	3,810	4,290

17. INVENTORIES

	2004	Group
	HK\$'000	2003 HK\$'000
Raw materials	66,979	44,270
Work-in-progress	17,248	14,472
Finished goods	12,757	9,098
	96,984	67,840
<i>Less: Provision for obsolete and slow-moving inventories</i>	(1,800)	(1,800)
	95,184	66,040

Certain inventories were held under trust receipts bank loan arrangements.

NOTES TO THE ACCOUNTS

18. TRADE RECEIVABLES

During the year ended 31 March 2004, the Group generally granted credit terms to its customers ranging from 30 to 90 days, other than a major customer with whom extended credit terms would be granted on specific cases. The ageing analysis of trade receivables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
0 to 30 days	174,214	92,777
31 to 60 days	12,188	5,973
61 to 90 days	6,625	2,445
91 to 180 days	2,157	1,138
Over 180 days	1,362	461
	196,546	102,794
<i>Less: Provision for bad and doubtful debts</i>	(1,000)	(1,000)
	195,546	101,794

19. CASH AND BANK DEPOSITS

At 31 March 2004, approximately HK\$48,477,000 (2003: HK\$28,210,000) 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.

20. SHORT-TERM BANK BORROWINGS

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank overdrafts	–	3,425
Trust receipts bank loans	41,826	37,790
	41,826	41,215

Details of the Group's banking facilities are included in note 30.

NOTES TO THE ACCOUNTS

21. SECURED LONG-TERM BANK LOAN

The Group's secured long-term bank loan was repayable as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	16,485	3,334
In the second year	22,667	1,943
In the third year	12,855	–
	52,007	5,277
<i>Less: Current portion of secured long-term bank loan</i>	(16,485)	(3,334)
	35,522	1,943

Details of the Group's banking facilities are included in note 30.

22. TRADE PAYABLES

	Group	
	2004	2003
	HK\$'000	HK\$'000
0 to 30 days	74,676	43,865
31 to 60 days	21,275	3,393
61 to 90 days	10,848	3,499
91 to 180 days	6,523	2,034
Over 180 days	2,049	1,882
	115,371	54,673

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% (2003: 16%).

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

	Group	
	2004 HK\$	2003 HK\$ (Restated)
At 1st April	4,392	4,894
Deferred taxation credited to profit and loss account (Note 7)	(55)	(502)
At 31st March	4,337	4,392

The movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax liabilities	Accelerated tax depreciation	
	2004 HK\$	2003 HK\$ (Restated)
At 1st April	5,333	4,894
Charged to profit and loss account	186	439
At 31st March	5,519	5,333

Deferred tax assets	Provisions		Tax losses		Total	
	2004 HK\$	2003 HK\$ (Restated)	2004 HK\$	2003 HK\$ (Restated)	2004 HK\$	2003 HK\$ (Restated)
At 1st April	(175)	-	(766)	-	(941)	-
Credited to profit and loss account	-	(175)	(241)	(766)	(241)	(941)
At 31st March	(175)	(175)	(1,007)	(766)	(1,182)	(941)

NOTES TO THE ACCOUNTS

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:

	2004 HK\$'000	2003 HK\$'000 (Restated)
Deferred tax assets	(412)	–
Deferred tax liabilities	4,749	4,392
	4,337	4,392

24. OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2004, the Group's finance lease liabilities were repayable as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	3,189	3,189
In the second to fifth	3,674	7,071
	6,863	10,260
Less: future finance charges on finance leases	(323)	(878)
	6,540	9,382
Less: current portion	(2,967)	(2,841)
	3,573	6,541

The present value of finance lease liabilities is as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	2,967	2,841
In the second to fifth	3,573	6,541
	6,540	9,382

NOTES TO THE ACCOUNTS

25. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.1 each	
	No. of shares '000	HK\$'000
As at 1 April 2002	1,000	100
Increase in authorised share capital (note (a))	1,999,000	199,900
As at 31 March 2003 and 2004	2,000,000	200,000

	Issued and fully paid ordinary shares of HK\$0.1 each	
	No. of shares '000	HK\$'000
Upon incorporation on 28th September 2001	1,000	–
Issue of shares arising from reorganisation (note (b))	1,000	200
Issue of shares through public offering and private placement (note (c))	50,000	5,000
Capitalisation of share premium (note (d))	148,000	14,800
As at 31 March 2003	200,000	20,000
Issue of shares through private placement (note (e))	20,000	2,000
Issue of shares on acquisition of additional interests in a subsidiary (note (f))	1,800	180
Exercise of share option (note (g))	4,140	414
As at 31 March 2004	225,940	22,594

Notes:

- (a) On 23 August 2002, the Company's authorised share capital was increased from HK\$100,000 to HK\$200,000,000, by the creation of additional 1,999,000,000 shares ranking pari passu with the then existing shares in all respects.
- (b) On 23 August 2002, the Company issued 1,000,000 shares which, together with the 1,000,000 shares issued upon incorporation, were credited as fully paid as consideration for the acquisition of the entire issued share capital of Suga International Limited.
- (c) On 16 September 2002, 50,000,000 shares were issued at HK\$1 per share through a public offering and private placement ("the New Issue") resulting in cash proceeds of HK\$50,000,000.

NOTES TO THE ACCOUNTS

25. SHARE CAPITAL (Continued)

Notes:

- (d) Immediately after the New Issue, share premium of approximately HK\$14,800,000 was capitalised by the issuance of 148,000,000 shares of HK\$0.1 each on a pro-rata basis to the Company's shareholders before the New Issue.
- (e) 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.
- (f) 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 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 share issued as consideration was HK\$2,700,000.
- (g) 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	
	2004 HK\$'000	2003 HK\$'000
At the beginning of the year	–	–
Granted (i)	12,300	–
Exercised (ii)	(4,140)	–
Lapsed/cancelled	(50)	–
At the end of the year (iii)	8,110	–

- (i) On 5 May 2003, the Company received \$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 shares of the Company at price of HK\$1.23 each. The options will expire on 4 May 2008.

NOTES TO THE ACCOUNTS

25. SHARE CAPITAL (Continued)

Notes:

(g) (Continued)

(ii) During the year, 4,140,000 shares were issued upon exercise of the options, yielding the following proceeds of HK\$5,092,000 (2003: Nil).

	2004 HK\$'000	2003 HK\$'000
Ordinary share capital – at par	414	–
Share premium	4,678	–
Proceeds	5,092	–
		HK\$'000

Fair value of shares issued at exercise date of:

– 16 June 2003	93
– 17 June 2003	85
– 23 June 2003	158
– 25 June 2003	32
– 3 July 2003	390
– 14 July 2003	146
– 25 July 2003	83
– 29 July 2003	1,168
– 22 September 2003	3,000
– 29 October 2003	279
– 10 December 2003	78
– 22 December 2003	116
– 8 March 2004	650
	6,278

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

	Exercise price	Number of options		Vested percentages	
		2004 '000	2003 '000	2004	2003
Expiry date					
Directors					
4 May 2008	1.23	4,170	–	100%	–
Other employees					
4 May 2008	1.23	3,940	–	100%	–
		8,110	–		

(iv) On 7 May 2004, 6,300,000 share options were granted to certain directors and employees of the Group. These share options are exercisable at HK\$1.23 per share for the period from the date of grant up to 6 May 2009.

NOTES TO THE ACCOUNTS

26. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Group Exchange reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
At 1 April 2003, as previously reported	18,648	10,591	2,428	81,900	113,567
Effect of adoption of SSAP 12 (revised) (note 2(m))	–	–	–	(734)	(734)
At 1 April 2003, as restated	18,648	10,591	2,428	81,166	112,833
Issue of shares through private placement (note 25(e))	26,000	–	–	–	26,000
Share issuance expenses	(671)	–	–	–	(671)
Exercise of share options (note 25(g)(ii))	4,678	–	–	–	4,678
Issue of shares on acquisition of additional interests in a subsidiary (note 25(f))	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	
At 1 April 2002	–	11,446	–	76,533	87,979
Premium on issue of ordinary shares	45,000	–	–	–	45,000
Share issuance expenses	(11,552)	–	–	–	(11,552)
Capitalisation of share premium	(14,800)	–	–	–	(14,800)
Transfer from capital reserve to retained profit upon disposal of a subsidiary	–	(855)	–	855	–
Translation adjustments	–	–	2,428	–	2,428
Profit for the year, as restated	–	–	–	38,287	38,287
Goodwill reversed upon disposal of a subsidiary	–	–	–	491	491
Dividends paid	–	–	–	(35,000)	(35,000)
At 31 March 2003	18,648	10,591	2,428	81,166	112,833
Representing:					
Proposed dividend				5,500	
Others				75,666	
Retained profit as at 31 March 2003				81,166	

NOTES TO THE ACCOUNTS

26. RESERVES (Continued)

	Company			Total HK\$'000
	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profit HK\$'000	
At 1 April 2003	18,648	64,872	5,601	89,121
Issue of shares through private placement (note 25(e))	26,000	–	–	26,000
Share issuance expenses	(671)	–	–	(671)
Exercise of share options (note 25(g)(ii))	4,678	–	–	4,678
Issue of shares on acquisition of additional interests in a subsidiary (note 25(f))	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			<u>6,935</u>	
At 1 April 2002	–	–	–	–
Premium on issue of ordinary shares	45,000	–	–	45,000
Share issuance expenses	(11,552)	–	–	(11,552)
Capitalisation of share premium	(14,800)	–	–	(14,800)
Effect of the Reorganisation	–	64,872	–	64,872
Profit for the year	–	–	10,601	10,601
Dividend paid	–	–	(5,000)	(5,000)
At 31 March 2003	18,648	64,872	5,601	89,121
Representing:				
Proposed dividend			5,500	
Others			101	
Retained profit as at 31 March 2003			<u>5,601</u>	

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.

NOTES TO THE ACCOUNTS

27. CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit before taxation to net cash outflow from operations

	2004 HK\$'000	2003 HK\$'000 (Restated)
Profit before taxation	46,282	43,781
Depreciation of property, plant and equipment	7,685	6,295
Loss on disposal of property, plant and equipment	31	105
Amortisation of goodwills	(529)	(608)
Loss/(gain) on disposal of interest in a subsidiary	–	(9,076)
Interest income	(343)	(154)
Interest expense	2,378	2,459
Effect of foreign exchange rate changes	–	2,607
Unrealised gain on unlisted investments	(300)	–
Operating profit before working capital changes	55,204	45,409
Increase in inventories	(29,144)	(30,489)
(Increase)/decrease in prepayments, deposits and other receivables	(4,785)	1,972
Increase in trade receivables	(93,752)	(49,904)
Increase in trade payables	60,698	25,506
(Decrease)/Increase in accruals and other payables	(444)	2,155
Net cash outflow from operations	(12,223)	(5,351)

NOTES TO THE ACCOUNTS

27. CONSOLIDATED CASH FLOW STATEMENTS (Continued)

(b) Analysis of changes in financing:

	Share capital and share premium HK\$'000	Long-term bank loan HK\$'000	Trust receipts bank loans HK\$'000	Obligations under finance leases HK\$'000	Dividend payable HK\$'000	Minority Interests 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 loan	-	(6,270)	-	-	-	-
Increase in long-term bank loan	-	53,000	-	-	-	-
Increase in trust receipts bank loans	-	-	4,036	-	-	-
Repayment of capital element of finance lease payments	-	-	-	(2,842)	-	-
Minority interests' share of profit	-	-	-	-	-	1,063
Acquisition of additional interests in a subsidiary (note 27(c))	2,700	-	-	-	-	(1,503)
Dividend declared	-	-	-	-	11,169	-
Dividend paid	-	-	-	-	(11,169)	-
Balance as at						
31 March 2004	73,769	52,007	41,826	6,540	-	-

NOTES TO THE ACCOUNTS

27. CONSOLIDATED CASH FLOW STATEMENTS (Continued)

(b) Analysis of changes in financing: (Continued)

	Share capital and share premium HK\$'000	Long-term bank loan HK\$'000	Trust receipts bank loans HK\$'000	Obligations under finance leases HK\$'000	Due to a related company HK\$'000	Dividend payable HK\$'000	Minority Interests HK\$'000
Balance as at 1 April 2002	200	8,611	16,549	4,650	-	-	-
Issue of ordinary shares	50,000	-	-	-	-	-	-
Share issuance expenses	(11,552)	-	-	-	-	-	-
Repayment of long-term bank loan	-	(3,334)	-	-	-	-	-
Increase in trust receipts bank loans	-	-	21,241	-	-	-	-
Inception of finance leases	-	-	-	6,860	-	-	-
Repayment of capital element of finance lease payments	-	-	-	(2,128)	-	-	-
Advance to a related company	-	-	-	-	13,893	-	-
Repayment from a related company	-	-	-	-	(13,893)	-	-
Minority interests' share of profit	-	-	-	-	-	-	425
Capital injection by a minority shareholder of a subsidiary	-	-	-	-	-	-	15
Dividend declared	-	-	-	-	-	35,000	-
Dividend paid	-	-	-	-	-	(35,000)	-
Balance as at 31 March 2003	38,648	5,277	37,790	9,382	-	-	440

(c) Major non-cash transactions

On 25 September 2003, the Group acquired the remaining 15% interest in Suga Networks Hong Kong Limited ("Suga Networks"), a subsidiary, at consideration of HK\$2,700,000, which was settled by issuance of 1,800,000 share of HK\$1.5 each based on the closing price as quoted by the Stock Exchange on 25 September 2003.

(d) Analysis of cash and cash equivalents:

	2004 HK\$'000	2003 HK\$'000
Cash and bank deposits	66,150	31,603
Bank overdrafts	-	(3,425)
	66,150	28,178

NOTES TO THE ACCOUNTS

28. CONTINGENT LIABILITIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Guarantees provided by the Company in respect of bank facilities of certain subsidiaries	136,201	59,105

As at 31 March 2003 and 2004, the Group did not have any significant contingent liabilities.

29. COMMITMENTS

Operating lease commitments

At 31 March 2004, the Group had future aggregate minimum lease payments in respect of rented premises under non-cancellable operating leases as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Not later than one year	1,078	1,260
Later than one year and not later than five years	42	970
	1,120	2,230

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

30. BANKING FACILITIES

At 31 March 2004, the Group had aggregate banking facilities of approximately HK\$251,787,000 (2003: HK\$97,528,000) for overdrafts, loans and trade financing. Unused facilities at the same date amounted to approximately HK\$111,916,000 (2003: HK\$38,423,000). These facilities are secured by:

- (a) certain inventories held under trust receipts bank loans arrangements.
- (b) corporate guarantee provided by the Company and certain of its subsidiaries.

In addition, the Group has agreed with the banks to comply with certain restrictive financial covenants.

NOTES TO THE ACCOUNTS

31. 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.

For the year ended 31 March 2004, the aggregate amount of the Group's contributions to the aforementioned pension schemes was approximately HK\$1,356,000 (2003: HK\$1,161,000).

32. 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 made sales of electronic products of approximately HK\$696,000 (2003: HK\$535,000) to SVLL, a company beneficially owned by Mr. NG Chi Ho, Mr. MA Fung On and Mr. FUNG Chi Leung, Mark, all being directors of the Company, at terms agreed with SVLL.
- (b) During the year, the Group paid technical consultancy fee of approximately HK\$550,000 (2003: HK\$175,000) to Micom Tech Limited, a company incorporated in Hong Kong where Mr. NG Chi Ho, a director of the Company, held interests and is a director, at terms agreed with Micom Tech Limited.

33. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 29 June 2004.

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				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000 (restated)	
CONSOLIDATED RESULTS					
Turnover	565,650	217,993	243,655	453,344	600,911
Operating profit	24,558	30,433	34,282	46,240	48,660
Continuing operation	25,606	32,183	38,380	48,407	48,660
Discontinuing operation	(1,048)	(1,750)	(4,098)	(2,167)	-
Profit before taxation	24,402	29,653	33,340	43,781	46,282
Taxation	(1,994)	(5,238)	(6,122)	(5,069)	(2,376)
Profit after taxation	22,408	24,415	27,218	38,712	43,906
Minority interests	-	-	-	(425)	(1,063)
Profit attributable to shareholders	22,408	24,415	27,218	38,287	42,843
As at 31 March					
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
CONSOLIDATED ASSETS AND LIABILITIES					
Property, plant and equipment	4,288	5,531	53,024	62,755	66,598
Negative goodwill	-	-	(15,448)	(10,990)	(9,263)
Deferred development cost	-	-	-	-	1,333
Other long-term investment	-	-	3,510	3,510	3,810
Deferred tax assets	-	-	-	-	412
Current assets	120,173	107,970	116,449	207,041	368,970
Current liabilities	(87,908)	(52,504)	(59,617)	(116,167)	(188,388)
Net current assets	32,265	55,466	56,832	90,874	180,582
Total assets less current liabilities	36,553	60,997	97,918	146,149	243,472
Long term bank loan	-	-	(5,277)	(1,943)	(35,522)
Obligations under finance leases	-	-	(3,418)	(6,541)	(3,573)
Deferred taxation	(87)	(87)	(1,044)	(4,392)	(4,749)
Minority interests	-	-	-	(440)	-
Shareholders' funds	36,466	60,910	88,179	132,833	199,628

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 1999, 2000, 2001 and 2002 are presented on the same basis.
- (b) The adoption of the SSAP 12 (revised) represents a change in accounting policy which has been applied retrospectively so that the comparatives presented have been restated to conform with the changed policy.