

REPORT OF THE DIRECTORS

The Directors present their first report and the audited accounts of the Company and the Group for the year ended 31 March 2003.

GROUP REORGANISATION

The Company was incorporated in Bermuda on 28 September 2001 under the Companies Act 1981 of Bermuda (as amended) as an exempted company with limited liability. Pursuant to a group reorganisation (the “Reorganisation”) in preparation for 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. Details of the Reorganisation and basis of presentation of the financial statements are set out in Notes 1 and 2 to the accounts and in the Company’s prospectus (“Prospectus”) dated 6 September 2002.

On 18 September 2002, the Company’s shares were listed on the Stock Exchange of Hong Kong Limited pursuant to the Company’s initial public offering exercise.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of electronic products. Further details of the principal subsidiaries are set out in Note 16 to the accounts. There were no significant changes in the nature of the Group’s principal activities during the year.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2003 are set out in the consolidated profit and loss account on page 24 of this annual report.

The Directors recommended the payment of a final dividend of HK2.5 cents per ordinary share to shareholders of the Company whose names appear on the register of members on 21 August 2003. Together with the interim dividend payment of HK2.5 cents per ordinary share, the total dividend for the year will be HK5.0 cents per ordinary share. This recommendation and the distribution of such final dividend is subject to the shareholders’ approval at the forthcoming Annual General Meeting to be held on 21 August 2003.

USE OF PROCEEDS FROM THE COMPANY’S INITIAL PUBLIC OFFERING

The proceeds from the Company’s issue of new shares at the time of its listing on the Stock Exchange on 18 September 2002, after deduction of related listing expenses, amounted to approximately HK\$38 million. These proceeds were applied during the year ended 31 March 2003 in accordance with the proposed applications set out in the Prospectus, as follows:—

- approximately HK\$4 million was used for expansion of production facilities for consumer electronics appliances;
- approximately HK\$4 million was used for acquisition of additional machinery and equipment to increase its production facilities;

REPORT OF THE DIRECTORS

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING *(Continued)*

- approximately HK\$1 million was used for marketing and promotion of the Group's products;
- approximately HK\$3 million was used for strengthening research and development capability of new products; and
- approximately HK\$7 million was used for repayment of bank borrowings.

The balance of the proceeds which has not been utilized as at 31 March 2003 was deposited into licensed banks in Hong Kong.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on page 61.

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under the laws in Bermuda.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S SHARES

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

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 26 to the accounts.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in Note 28 to the accounts.

DISTRIBUTABLE RESERVES

As at 31 March 2003, the Company's reserves available for distribution, calculated in accordance with the Companies Act of Bermuda, amounted to approximately HK\$70,473,000 (2002: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 14 to the accounts.

DIRECTORS

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

Executive Directors

Mr. Ng Chi Ho (Chairman)	(Appointed on 19 October 2001)
Mr. Fung Chi Leung, Mark (Deputy Chairman)	(Appointed on 19 October 2001)
Mr. Wong Wai Lik, Lamson	(Appointed on 23 August 2002)
Mr. Ma Fung On	(Appointed on 23 August 2002)

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DIRECTORS (Continued)

Non-executive Director

Mr. Shaw Kyle Arnold Junior (Appointed on 1 November 2002)

Independent Non-executive Directors

Professor Wong Sook Leung, Joshua (Appointed on 23 August 2002)

Mr. Murase Hiroshi (Appointed on 23 August 2002)

In accordance with bye-law 111 of the Company's Bye-laws, Professor Wong Sook Leung, Joshua and Mr. Murase Hiroshi will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 to 14.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors of the Company has entered into a service contract with the Company for an initial fixed term of three years commencing from 1 September 2002 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

The Non-executive Director, Mr. Shaw Kyle Arnold Junior, was appointed for a one-year term expiring on 31 October 2003.

The two Independent Non-executive Directors are not appointed for a specific term but are subject to retirement by rotation in accordance with the Company's Bye-laws.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming annual general meeting 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.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance of the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2003, according to the register of directors' interests maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of the directors in the shares of the Company and its associated corporations were as follows:—

1. Interests in shares of the Company

Director	Corporate interests	Personal interests	Family interests	Total interests
Mr. Ng Chi Ho (Note 1)	28,100,000	—	100,000,000	128,100,000
Mr. Fung Chi Leung, Mark (Note 2)	3,000,000	—	—	3,000,000
Mr. Ma Fung On (Note 3)	9,000,000	—	—	9,000,000

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DIRECTORS' INTERESTS IN SHARES *(Continued)*

1. Interests in shares of the Company *(Continued)*

Notes:

- 28,100,000 shares are held by Billion Linkage Limited, the entire issued shares of which are held by Mr. Ng Chi Ho and his spouse in equal share and 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.
- The 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.
- The 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.

2. Interests in Suga Electronics Limited

As at 31 March 2003, each of Mr. Ng Chi Ho, Mr. Fung Chi Leung, Mark and Mr. Ma Fung On held in the following non-voting deferred shares of HK\$1 each in Suga Electronics Limited:

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

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 29 of the SDI Ordinance as at 31 March 2003.

SHARE OPTION SCHEME

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

Major 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.

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SHARE OPTION SCHEME (Continued)

2. Eligible participants of the Share Option Scheme

Eligible participants of the Share Option Scheme include:

- (aa) 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;
- (bb) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of the Group or any Invested Entity;
- (dd) any customer of the Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (ff) 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;
- (gg) 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
- (hh) 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 19,450,000, which represented approximately 8.82% 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 shareholders 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.

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SHARE OPTION SCHEME *(Continued)*

5. **Basis of determining the subscription price**

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

6. **Exercise period of an option**

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

7. **Time and payment on acceptance**

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

8. **Minimum period and performance targets**

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

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.

During the year ended 31 March 2003, no share options were granted.

On 5 May 2003, pursuant to the Share Option Scheme, options to subscribe for an aggregate of 12,300,000 shares of the Company at a subscription price of HK\$1.23 per share were granted to four executive directors and certain employees of the Company and its subsidiaries. These options are exercisable at any time from the date of grant to 4 May 2008. Such 12,300,000 options were granted as to 2,000,000 to Mr. Ng Chi Ho, 1,800,000 to Mr. Fung Chi Leung, Mark, 1,800,000 to Mr. Ma Fung On and 1,800,000 to Mr. Wong Wai Lik, Lamson, executive directors of the Company and 4,900,000 to certain employees.

Up to the date of this annual report, 550,000 share options were exercised by certain employees and none of the share options granted to executive directors of the Company was exercised.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the Share Option Scheme on pages 18 to 20, and other than the Reorganisation in preparation for the Company's listing of shares, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 March 2003, according to the register maintained under Section 16(1) of the SDI Ordinance, the following entities (not being a director or chief executive of the Company) had an interests of 10% or more of the issued share capital of the Company:—

Name	Number of issued shares	Percentage of issued shares
Superior View Inc. (Note 1)	100,000,000	50.00%
Billion Linkage Limited (Note 2)	28,100,000	14.05%

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 Chi Ho is deemed to be interested in all the shares held by Billion Linkage Limited under the SDI Ordinance.

Save as disclosed above, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance.

MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company or any of its subsidiaries were entered into during the year or subsisted at the end of the year.

POST BALANCE SHEET EVENTS

The following significant transactions took place subsequent to 31 March 2003 and up to the date of this annual report:

1. Grant of share options

On 5 May 2003, pursuant to the Share Option Scheme, options to subscribe for an aggregate of 12,300,000 shares of the Company at a subscription price of HK\$1.23 per share were granted to four executive directors and certain employees of the Company and its subsidiaries. These options are exercisable at any time from the date of grant to 4 May 2008. Such 12,300,000 options were granted as to 2,000,000 to Mr. Ng Chi Ho, 1,800,000 to Mr. Fung Chi Leung, Mark, 1,800,000 to Mr. Ma Fung On and 1,800,000 to Mr. Wong Wai Lik, Lamson, executive directors of the Company and 4,900,000 to certain employees.

Up to the date of this annual report, 550,000 share options were exercised by certain employees and none of the share options granted to executive directors of the Company was exercised.

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POST BALANCE SHEET EVENTS *(Continued)*

2. Placing of existing shares and subscription of new shares

With a view to broadening the Group's investor base and enhancing the stock market liquidity, the Board has decided to place 20,000,000 new shares to institutional investors.

On 2 June 2003, the Company, Billion Linkage Limited (a substantial shareholder of the Company) and the Joint Lead Managers, namely SBI E2-Capital Securities Limited and DBS Asia Capital Limited, entered into a Placing and Subscription Agreement pursuant to which (i) 20,000,000 existing shares held by Billion Linkage Limited were placed to more than six independent placees, all are institutional investors, at HK\$1.40 per share, and (ii) after the completion of the placing of existing shares, the Company issued 20,000,000 new shares to Billion Linkage Limited at HK\$1.40 per share.

Placing of existing 20,000,000 shares by Billion Linkage Limited to independent placees were completed on 6 June 2003 while subscription of 20,000,000 new shares by Billion Linkage Limited were completed on 12 June 2003.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2003, the five largest customers of the Group accounted for approximately 92% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 34% of the Group's total purchases. In addition, the largest customer of the Group accounted for approximately 39% of the Group's turnover while the largest supplier of the Group accounted for approximately 7.6% of the Group's total purchases.

None of the directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and suppliers.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14 of the Listing Rules, the following connected transactions of the Company require disclosure in the annual report of the Company:

During the year, the Group made sales of electronic products of approximately HK\$535,000 to S&V Lighting Limited, a company beneficially owned by Mr. Ng Chi Ho, Mr. Ma Fung On and Mr. Fung Chi Leung, Mark, directors and beneficial shareholders of the Company, in the normal course of the Group's business.

AUDIT COMMITTEE

The audit committee of the Company comprises two independent non-executive directors of the Company, Professor Wong Sook Leung, Joshua and Mr. Murase Hiroshi. The audit 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.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31 March 2003, except that the independent non-executive directors of the Company have not been appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's Bye-laws.

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
NG Chi Ho
Chairman

Hong Kong, 15 July 2003