1. GROUP REORGANISATION AND OPERATIONS

Suga International Holdings Limited (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. 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 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. 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. The comparative figures as at and for the year ended 31 March 2002 are presented on the same basis.

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 certain investments are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP1 (revised):	Presentation of financial statements
SSAP11 (revised):	Foreign currency translation
SSAP15 (revised):	Cash flow statements
SSAP33:	Discontinuing operations
SSAP34 (revised):	Employee benefits

The Directors consider that the adoption of the above standards did not have material impact on the accounts except for the reclassification of certain issues in the consolidated cash flow statement into operating, investing and financing activities and the presentation of a consolidated statement of changes in equity.

2. **PRINCIPAL ACCOUNTING POLICIES** *(continued)*

(b) Group accounting

(i) Consolidation

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

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

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

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

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 or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

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

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

(ii) 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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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 at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life of 20 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 does not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss 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 the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

(ii) 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% to 33%

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.

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) 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.

(f) Other investments

Other 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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Inventories

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

(h) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(i) 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.

(j) 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.

(k) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service 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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) Contingent liabilities and contingent assets

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

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

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

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

(m) 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.

(n) Research and development expenditures

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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) 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.

(p) Deferred taxation

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that it is probable that a liability or an asset will crystallise.

(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.

Unallocated expenses represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and receivables, and mainly exclude operating cash 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.

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

3. TURNOVER AND REVENUE

Revenue recognised during the year are as follows:

	2003 HK$'000	2002 HK$'000
Turnover		
Sales of electronic products		
– consumer electronic appliances	213,988	121,340
– telecommunication products	205,701	69,830
– office automation products	14,460	14,327
– others	6,860	2,872
Contract processing service on		
– consumer electronic appliances	–	5,744
– office automation products	12,335	29,542
Total turnover	453,344	243,655
Other revenue		
– Interest income	154	355
Total revenue	453,498	244,010

4. SEGMENT INFORMATION

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 segments as the secondary reporting format.

(a) Primary segment:

The Group has categorised its business segment by products types into consumer electronics appliances, telecommunication products, office automation products and others. The results of operation and other financial information of S&V Lighting Limited ("SVLL") as at and for the year/period ended 31 March 2002 and 2003 were included in the others category. Details of the results of operations, total assets and total liabilities of SVLL as at and for the year/period ended 31 March 2002 and 2003 are set out in note 5 to the accounts. An analysis of the Group's turnover, profit attributable to shareholders, depreciation and capital expenditure by business segment is as follows:

	2003				
	Consumer electronics appliances HK$'000	Telecommunication products HK$'000	Office automation products HK$'000	Others HK$'000	Total HK$'000
Turnover	213,988	205,701	26,795	6,860	453,344
OPERATING RESULTS					
Operating profit	25,328	8,176	3,222	476	37,202
Gain on disposal of interest in a subsidiary					9,076
Interest income					154
Finance costs					(2,459)
Taxation					(4,527)
Minority interests					(425)
Profit attributable to shareholders					39,021
Depreciation and amortisation	2,594	2,493	325	83	5,495
Other information					
Segment assets	105,150	101,078	13,167	3,370	222,765
Unallocated assets					35,893
					258,658
Segment liabilities	28,205	27,113	3,532	904	59,754
Unallocated liabilities					64,897
					124,651
Capital expenditures	3,230	13,492	384	56	17,162

4. SEGMENT INFORMATION *(continued)*

(a) Primary segment: *(continued)*

	2002				
	Consumer electronics appliances HK$'000	Telecommunication products HK$'000	Office automation products HK$'000	Others HK$'000	Total HK$'000
Turnover	127,084	69,830	43,869	2,872	243,655
OPERATING RESULTS					
Operating profit	18,998	6,528	8,045	227	33,798
Gain on disposal of interest in a subsidiary					129
Interest income					355
Finance costs					(942)
Taxation					(6,122)
Profit attributable to shareholders					27,218
Depreciation and amortisation	1,627	894	562	37	3,120
Other information					
Segment assets	70,548	38,765	24,353	1,594	135,260
Unallocated assets					22,275
					157,535
Segment liabilities	19,283	10,595	6,656	436	36,970
Unallocated liabilities					32,386
					69,356
Capital expenditures	19,114	10,502	1,774	432	31,822

4. SEGMENT INFORMATION *(continued)*

(b) Secondary segment:

An analysis by geographical segment is as follow:

(i) Analysis by turnover – by location of customers

	2003 HK$'000	2002 HK$'000
Turnover		
– The United States of America	138,302	83,070
– Mainland China	193,294	14,327
– Asia Pacific region (excluding Mainland China)	119,844	145,648
– Europe	1,904	610
	453,344	243,655

(ii) Analysis by segment results – by location of customers

	2003 HK$'000	2002 HK$'000
Segment results		
– The United States of America	24,542	16,614
– Mainland China	4,301	1,433
– Asia Pacific region (excluding Mainland China)	8,048	15,633
– Europe	311	118
	37,202	33,798

(iii) Analysis by segment assets – by location of assets

	2003 HK$'000	2002 HK$'000
– Hong Kong	70,316	83,012
– Mainland China	188,342	74,523
	258,658	157,535

4. **SEGMENT INFORMATION** *(continued)*

(b) **Secondary segment:** *(continued)*

(iv) *Capital expenditure – by location of assets*

	2003 HK$'000	2002 HK$'000
– Hong Kong	637	11,435
– Mainland China	16,525	20,387
	17,162	31,822

5. **DISCONTINUING OPERATION**

On 23 August 2002, pursuant to the Reorganisation, Suga Electronics Limited, a wholly-owned subsidiary, disposed of its entire equity interest in SVLL, a company engaged in the research and development of lighting products, to companies beneficially owned by Mr. Ng Chi Ho, Mr. Ma Fung On and Mr. Fung Chi Leung, Mark, directors and beneficial shareholders of the Company for a total consideration of HK$1,000. The gain arising from the disposal amounted to approximately HK$9,076,000. The results of SVLL are presented as discontinuing operations in the consolidated accounts for the year ended 31 March 2002 and for the period from 1 April 2002 to 23 August 2002 (date of disposal):

	For the period ended 23 August 2002 HK$'000	For the twelve months ended 31 March 2002 HK$'000
Turnover	660	–
Cost of sales	(889)	–
Gross loss	(229)	–
Research and development costs	–	(185)
Distribution and selling expenses	(354)	–
General and administrative expenses	(1,584)	(3,913)
Loss from operation	(2,167)	(4,098)
Interest income	–	3
Loss before taxation	(2,167)	(4,095)
Taxation	–	–
Loss attributable to shareholders	(2,167)	(4,095)
Net cash flows attributable to SVLL were as follows:		
Net operating cash outflow	(3,044)	(3,665)
Net investing cash inflow	4,564	4,096
	1,520	431

5. DISCONTINUING OPERATION *(continued)*

	As at 31 March 2003 HK$'000	As at 31 March 2002 HK$'000
Property, plant and equipment	–	1,054
Current assets	–	920
Total assets	–	1,974
Total liabilities	–	(9,372)
Net liabilities	–	(7,398)

	Year ended 31 March 2003 HK$'000
Net liabilities disposed of	9,566
Goodwill written back upon disposal of interest in SVLL	(491)
Proceeds from disposal of interest in SVLL	1
Gain on disposal of interest in SVLL	9,076
Taxation thereon	–
After-tax profit on disposal	9,076

6. OPERATING PROFIT

Operating profit is determined after charging and crediting the following:

	2003 HK$'000	2002 HK$'000
Charging:		
Cost of inventories sold	365,468	178,521
Depreciation of property, plant and equipment		
– owned assets	3,846	3,009
– assets held under finance leases	2,449	667
Loss on disposal of property, plant and equipment	105	–
Operating lease rental of premises	2,493	2,521
Staff costs (including directors' emoluments)	25,522	30,228
Provision for bad and doubtful debts	621	100
Provision for obsolete and slow-moving inventories	–	200
Net exchange loss	1,394	700
Auditors' remuneration	765	350
Crediting:		
Amortisation of negative goodwill	800	556
Gain on disposal of interest in a subsidiary	9,076	129

7. FINANCE COSTS

	2003 HK$'000	2002 HK$'000
Interest on:		
– bank loans wholly repayable within five years	2,112	730
– obligations under finance leases	347	37
– amount due to a related company	–	151
– amount due to directors	–	24
	2,459	942

8. STAFF COSTS

	2003 HK$'000	2002 HK$'000
Wages and salaries	**20,960**	24,184
Bonus	**133**	856
Unutilised annual leave	**260**	–
Pension costs – defined contribution plans	**1,161**	825
Staff welfare	**3,008**	4,363
	25,522	30,228

9. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

(a) Details of emoluments paid/payable to directors of the Company are as follows:

	2003 HK$'000	2002 HK$'000
Directors' fees		
– independent non-executive directors	**–**	–
– other non-executive directors	**85**	–
Other emoluments payables to executive directors		
– basic salaries, allowances and other benefits in kind	**3,788**	3,961
– discretionary bonus	**–**	153
– contribution to retirement scheme	**264**	261
	4,137	4,375

During the year, no directors waived any emoluments. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year.

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	Number of directors 2003	2002
HK$Nil – HK$1,000,000	**6**	5
HK$2,000,001 – HK$2,500,000	**1**	1
	7	6

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

(b) The five individuals whose emoluments were the highest in the Group for the year included three (2002: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2002: one) individuals during the year are as follows:

	2003	2002
	HK$'000	HK$'000
Basic salaries, allowances and other benefits in kind	**996**	673
Contribution to retirement scheme	**50**	34
	1,046	707

The emoluments fell within the following band:

	Number of individuals	
	2003	2002
HK$Nil – HK$1,000,000	**2**	1

No emolument was paid to the five highest paid individuals (including directors and other employees) as compensation for loss of office during the year.

10. 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 16% (2002: 16%) on the estimated assessable profit of the subsidiaries in Hong Kong for the year.

c. **Mainland China enterprise income tax**

Suga Electronics (Shenzhen) Co., Ltd. and Suga Networks Equipment (Shenzhen) Limited ("SNESL"), subsidiaries incorporated in Mainland China, are subject to Mainland China enterprise income tax ("EIT") of 15% on their taxable income. However, SNESL, which was incorporated during the year, 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. SNESL was still in a loss position during the year ended 31 December 2002.

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.

10. TAXATION *(continued)*

d. Others *(continued)*

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

	2003 HK$'000	2002 HK$'000
Current taxation		
– Hong Kong profits tax	4,800	1,933
– Mainland China enterprise income tax	771	3,232
	5,571	5,165
(Write-back of)/provision for deferred taxation	(1,044)	957
	4,527	6,122

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK$10,601,000 (2002: Nil).

12. DIVIDENDS

	2003 HK$'000	2002 HK$'000
Interim dividend of HK2.5 cents per ordinary share	5,000	–
Final dividend of HK2.5 cents per ordinary share, proposed	5,500	–
Special dividend	–	30,000
	10,500	30,000

At a meeting held on 15 July 2003, the directors proposed a final dividend of HK2.5 cents per ordinary share. This proposed dividend is reflected as an appropriation of retained profit as at 31 March 2003.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of approximately HK$39,021,000 (2002: HK$27,218,000) and the weighted average number of 176,986,000 (2002: 150,000,000) shares in issue during the year.

No information in respect of diluted earnings per share is presented as the Company has no potential dilutive ordinary shares in existence for the years ended 31 March 2002 and 2003.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost					
At 1 April 2002	38,500	5,617	24,925	10,829	79,871
Exchange adjustment	–	165	816	164	1,145
Additions	–	4,608	8,743	3,811	17,162
Disposal of subsidiary	–	–	–	(1,323)	(1,323)
Other disposals	–	(223)	–	(323)	(546)
At 31 March 2003	**38,500**	**10,167**	**34,484**	**13,158**	**96,309**
Accumulated depreciation					
At 1 April 2002	(626)	(3,960)	(16,001)	(6,260)	(26,847)
Exchange adjustment	–	(114)	(847)	(109)	(1,070)
Charge for the year	(939)	(899)	(3,115)	(1,342)	(6,295)
Disposal of subsidiary	–	–	–	250	250
Other disposals	–	85	–	323	408
At 31 March 2003	**(1,565)**	**(4,888)**	**(19,963)**	**(7,138)**	**(33,554)**
Net book value					
At 31 March 2003	**36,935**	**5,279**	**14,521**	**6,020**	**62,755**
At 31 March 2002	37,874	1,657	8,924	4,569	53,024

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

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Certain machinery of the Group was held under finance leases. Details of these assets were as follows:

	2003 HK$'000	2002 HK$'000
Cost	13,041	5,718
Less: Accumulated depreciation	(3,116)	(667)
Net book value	9,925	5,051

15. NEGATIVE GOODWILL

Movement of negative goodwill during the year was as follows:

	HK$'000
Opening net book amount at 1 April 2002	15,448
Amortisation charge for the year	(800)
Closing net book amount at 31 March 2003	14,648
At 31 March 2003	
Cost	16,004
Accumulated amortisation	(1,356)
Net book amount	14,648
At 31 March 2002	
Cost	16,004
Accumulated amortisation	(556)
Net book amount	15,448

16. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries comprised:

	2003 HK$'000	2002 HK$'000
Unlisted shares, at cost	65,072	–
Due from subsidiaries	44,042	–
	109,114	–

16. INVESTMENT IN SUBSIDIARIES *(continued)*

The underlying value of the investments in subsidiaries is in the opinion of the Directors, not less than its carrying values at 31 March 2003.

The balances with subsidiaries were unsecured, non-interest bearing and are not expected to be repayable within one year.

Details of the principal subsidiaries of the Company as at 31 March 2003 were as follows:

Name of company	**Place and date of incorporation/ establishment**	**Issued and fully paid share/ registered capital**	**Percentage of equity interest attributable to the Group (iv)**	**Principal activities**
Speedy Source Limited	Hong Kong 26 March 1997	Ordinary HK$2	100%	Trading of electronic products
Suga Electronics Limited	Hong Kong 28 May 1991	Ordinary HK$2	100%	Trading of electronic products
		Non-voting deferred shares HK$4,000,000 (i)	–	
Suga Electronics (Shenzhen) Co., Ltd. (ii)	Mainland China 10 June 1994	Registered capital HK$33,500,000	100%	Manufacturing of electronic products
Suga Networks Hong Kong Limited	Hong Kong 27 March 2002	Ordinary HK$100,000	85%	Trading of networking devices
Suga Networks Equipment (Shenzhen) Co. Ltd. (iii)	Mainland China 18 October 2002	Registered capital HK$1,000,000 (iii)	100%	Manufacturing of networking devices
Sumega Hong Kong Limited	Hong Kong 30 August 1999	Ordinary HK$500,000	100%	Trading of computer-related products
Suga International Limited	British Virgin Islands 9 August 2001	Ordinary US$700	100%	Investment holding
Typhoon International Limited	British Virgin Islands 4 December 1992	Ordinary US$1	100%	Property holding

16. INVESTMENT IN SUBSIDIARIES *(continued)*

Notes:

(i) The non-voting deferred shares of Suga Electronics Limited are owned 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 Mainland China to be operated for 20 years until June 2014.

(iii) SNESL is a wholly foreign owned enterprise established in Mainland China to be operated for 20 years until October 2022. Total registered capital of SNESL is HK$1,000,000, of which HK$400,000 was paid up as at 31 March 2003. The outstanding registered capital to be contributed by the Group amounted to HK$600,000.

(iv) The shares of Suga International Limited are held directly by the Company. The shares of other subsidiaries are held indirectly.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 March 2003.

17. OTHER INVESTMENTS

Other investments represent investments in unlisted units in investment funds managed by investment companies in Hong Kong, details of which are as follows:

	2003	2002
	HK$'000	HK$'000
Long-term unlisted investments	**3,510**	3,510
Short-term unlisted investments	**780**	–
	4,290	3,510

18. INVENTORIES

	2003	2002
	HK$'000	HK$'000
Raw materials	**44,270**	29,058
Work-in-progress	**14,472**	3,681
Finished goods	**9,098**	4,612
	67,840	37,351
Less: Provision for obsolete and slow-moving inventories	**(1,800)**	(1,800)
	66,040	35,551

There were no inventories stated at net realisable value as at 31 March 2003 (2002: Nil). Certain inventories were held under trust receipts bank loan arrangements (see Note 31).

19. TRADE RECEIVABLES

During the year ended 31 March 2003, the Group granted credit terms to its customers ranging from 30 to 75 days. The ageing analysis of trade receivables is as follows:

	2003 HK$'000	2002 HK$'000
0 to 30 days	**92,777**	41,825
31 to 60 days	**5,973**	2,992
61 to 90 days	**2,445**	3,261
91 to 180 days	**1,138**	2,536
181 to 365 days	**461**	1,607
1 to 2 years	**–**	386
2 to 3 years	**–**	294
	102,794	52,901
Less: provision for bad and doubtful debts	**(1,000)**	(379)
	101,794	52,522

20. OTHER CASH AND BANK DEPOSITS

At 31 March 2003, approximately HK$28,210,000 (2002: HK$1,716,000) of the Group's cash and bank deposits were denominated in Chinese Renminbi and placed with banks in Mainland China. The remittance of these funds out of Mainland China is subject to exchange control restrictions imposed by the Chinese government.

21. SHORT-TERM BANK BORROWINGS

	2003 HK$'000	2002 HK$'000
Bank overdrafts	**3,425**	–
Trust receipts bank loans	**37,790**	16,549
	41,215	16,549

Refer to Note 31 for details of the Group's banking facilities.

22. UNSECURED LONG-TERM BANK LOAN

At 31 March 2003, the Group's unsecured long-term bank loan was repayable as follows:

	2003 HK$'000	2002 HK$'000
Within one year	3,334	3,334
In the second year	1,943	3,334
In the third year	–	1,943
	5,277	8,611
Less: Current portion of unsecured long-term bank loan	(3,334)	(3,334)
	1,943	5,277

Refer to Note 31 for details of the Group's banking facilities.

23. TRADE PAYABLES

	2003 HK$'000	2002 HK$'000
0 to 30 days	43,865	26,467
31 to 60 days	3,393	1,006
61 to 90 days	3,499	441
91 to 180 days	2,034	53
181 to 365 days	1,882	1,153
1 to 2 years	–	101
2 to 3 years	–	122
	54,673	29,343

24. OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2003, the Group's finance lease liabilities were repayable as follows:

	2003 HK$'000	2002 HK$'000
Within one year	3,189	1,437
In the second year	3,189	1,326
In the third to fifth year	3,882	2,320
	10,260	5,083
Less: future finance charges on finance leases	(878)	(433)
	9,382	4,650
Less: current portion	(2,841)	(1,232)
	6,541	3,418

The present value of finance lease liabilities is as follows:

	2003 HK$'000	2002 HK$'000
Within one year	2,841	1,232
In the second year	2,967	1,193
In the third to fifth year	3,574	2,225
	9,382	4,650

25. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal rate of 17.5% (2002: 16%). The movements on the deferred liabilities account are as follows:

	2003 HK$'000	2002 HK$'000
At 1 April	1,044	87
(Write-back of)/provision for the year	(1,044)	957
At 31 March	–	1,044

There were no significant unprovided deferred taxation as at 31 March 2003.

26. SHARE CAPITAL

	Numbers of shares	Nominal value
	'000	HK$'000
Authorised (ordinary shares of HK$0.1 each)		
Upon incorporation on 28 September 2001 and as at 31 March 2002	1,000	100
Increase in authorised share capital (b)	1,999,000	199,900
As at 31 March 2003	**2,000,000**	**200,000**
Issued and fully paid		
Issue of shares upon incorporation on 28 September 2001 and as at 31 March 2002 (a)	1,000	–
Issue of shares arising from the reorganisation (c)	1,000	200
Issue of shares through public offering and private placement (d)	50,000	5,000
Capitalisation of share premium (e)	148,000	14,800
As at 31 March 2003	**200,000**	**20,000**

(a) On 28 September 2001, the Company was incorporated with an authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.1 each. All of these shares were issued and nil paid on 11 October 2001 and were subsequently paid up in the manner described in note c below.

(b) 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.

(c) 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.

(d) 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.

(e) 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.

26. SHARE CAPITAL *(Continued)*

The share capital presented in the consolidated balance sheet as at 31 March 2002 represented the share capital of the Company, arising on the incorporation and from the share swap transaction as described in notes (a) to (c) above, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation referred to in Note 1. The difference between the nominal value of these shares and the nominal value of shares of the subsidiaries acquired pursuant to the Reorganisation is accounted for as capital reserve.

27. EMPLOYEE SHARE OPTION

The Company has 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 employees (including executive directors) 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. No share option has been granted since the adoption of the Share Option Scheme to 31 March 2003.

On 5 May 2003, a total of 123,000,000 share options were granted to certain executive directors and employees of the Group. Up to 15 July 2003, 550,000 options were exercised by certain employees at exercise price of HK$1.23 per share.

28. RESERVES

Group

	Share premium HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Retained profit HK$'000	Proposed dividend HK$'000	Total HK$'000
At 1 April 2002	–	11,446	–	46,533	30,000	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	–	–
Goodwill reversed upon disposal of a subsidiary	–	–	–	491	–	491
Translation adjustments	–	–	2,428	–	–	2,428
Profit for the year	–	–	–	39,021	–	39,021
Proposed final dividends	–	–	–	(5,500)	5,500	–
Dividends paid	–	–	–	(5,000)	(30,000)	(35,000)
At 31 March 2003	**18,648**	**10,591**	**2,428**	**76,400**	**5,500**	**113,567**
At 1 April 2001	–	11,446	–	49,264	–	60,710
Profit for the year	–	–	–	27,218	–	27,218
Goodwill reversed upon disposal of a subsidiary	–	–	–	51	–	51
Proposed special dividends	–	–	–	(30,000)	30,000	–
At 31 March 2002	–	11,446	–	46,533	30,000	87,979

Company

	Share premium HK$'000	Contributed surplus HK$'000	Retained profit HK$'000	Proposed dividend HK$'000	Total HK$'000
At 1 April 2001 and 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
Dividends proposed	–	–	(5,500)	5,500	–
Dividends paid	–	–	(5,000)	–	(5,000)
At 31 March 2003	**18,648**	**64,872**	**101**	**5,500**	**89,121**

28. RESERVES *(Continued)*

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.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2003 HK$'000	2002 HK$'000
Profit before taxation	43,973	33,340
Depreciation of property, plant and equipment	6,295	3,676
Loss on disposal of property, plant and equipment	105	–
Amortisation of negative goodwill	(800)	(556)
Gain on disposal of interest in a subsidiary	(9,076)	(129)
Interest income	(154)	(355)
Interest expense	2,459	942
Effect of foreign exchange rate changes	2,607	–
Operating profit before working capital charges	45,409	36,918
Increase in inventories	(30,489)	(886)
Decrease/(increase) in prepayments, deposits and other current assets	1,972	(2,966)
Increase in trade receivables	(49,904)	(3,107)
Increase/(decrease) in trade payables	25,506	(1,048)
Increase/(decrease) in accruals and other payables	2,155	(651)
Net cash (outflow)/inflow from operations	(5,351)	28,260

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Gain on disposal of interest in a subsidiary

On 23 August 2002, Suga Electronics Limited, a wholly-owned subsidiary, disposed of its entire equity interest in SVLL, a company engaged in the research and development of lighting products to companies beneficially owned by Mr. Ng Chi Ho and Mr. Ma Fung On and Mr. Fung Chi Leung, Mark, directors and beneficial shareholders of the Company, for an aggregate cash consideration of HK$1,000 and the gain resulted from the disposal of interest in this subsidiary was approximately HK$9,076,000. Details of the net liabilities disposed of were:

	HK$'000
Net liabilities disposed of	
Property, plant and equipment	1,073
Trade receivables	632
Prepayments, deposits and other current assets	815
Cash and bank deposits	2,034
Trade payables	(176)
Accruals and other payables	(51)
Amount due to related companies, net	(13,893)
	(9,566)
Less: goodwill written back upon disposal of interest in SVLL	491
Add: gain on disposal of interest in SVLL	9,076
Satisfied by	
Cash consideration received	1
Analysis of net outflow of cash and cash equivalents in respect of the disposal of a subsidiary:	
Cash consideration received	1
Cash and bank deposits disposed of	(2,034)
Net cash outflow of cash and cash equivalents in respect of disposal of a subsidiary	(2,033)

29. **NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** *(Continued)*

(c) **Analysis of changes in financing is as follows:**

	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$'000	Minority interests HK$'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)	–	–	–	–
Net increase in trust receipts bank loans	–	–	21,241	–	–	–
Inception of finance leases	–	–	–	6,860	–	–
Repayment of capital element of finance leases	–	–	–	(2,128)	–	–
Advance to a related company	–	–	–	–	(13,893)	–
Repayment from a related company	–	–	–	–	13,893	–
Share of profit	–	–	–	–	–	425
Capital injection by minority shareholder	–	–	–	–	–	15
Balance as at 31 March 2003	**38,648**	**5,277**	**37,790**	**9,382**	**–**	**440**

	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	Due to directors HK$'000
Balance as at 1 April 2001	–	5,778	–	4,000	1,276
New long-term bank loan	10,000	–	–	–	–
Repayment of long-term bank loan	(1,389)	–	–	–	–
Net increase in trust receipts bank loans	–	10,771	–	–	–
Inception of finance leases	–	–	4,834	–	–
Repayment of capital element of finance leases	–	–	(184)	–	–
Repayment to a related company	–	–	–	(4,000)	–
Repayment to directors	–	–	–	–	(1,276)
Balance as at 31 March 2002	8,611	16,549	4,650	–	–

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS *(Continued)*

(d) Analysis of cash and cash equivalents:

	2003 HK$'000	2002 HK$'000
Other cash and bank deposits	31,603	15,598
Bank overdrafts	(3,425)	–
	28,178	15,598

(e) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of plant and machinery with a total capital value at the inception of the leases of approximately HK$6,860,000 (2002: HK$4,834,000).

30. COMMITMENTS AND CONTINGENT LIABILITIES

a. Operating lease commitments

At 31 March 2003, the Group had future aggregate minimum lease payments in respect of rented premises under non-cancellable operating leases as follows:

	2003 HK$'000	2002 HK$'000
Not later than one year	1,260	1,945
Later than one year and not later than five years	970	–
	2,230	1,945

b. Contingent liabilities

	2003 HK$'000	2002 HK$'000
Guarantees provided by the Company in respect of bank facilities of certain subsidiaries	59,105	–

As at 31 March 2003, the amount of such facilities utilised by the subsidiaries and guaranteed by the Company amounted to approximately HK$59,105,000 (2002: nil).

As at 31 March 2002 and 2003, the Group did not have any significant contingent liabilities.

31. BANKING FACILITIES

At 31 March 2003, the Group has aggregate banking facilities of approximately HK$97,528,000 (2002: HK$37,600,000) for overdrafts, loans and trade financing. Unused facilities at the same date amounted to approximately HK$38,423,000 (2002: HK$7,790,000). 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.

32. EMPLOYEE RETIREMENT BENEFITS

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

As stipulated by rules and regulations in Mainland China, 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 2003, the aggregate amount of the Group's contributions to the aforementioned pension schemes were approximately HK$1,161,000 (2002: HK$825,000).

33. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

During the year, the Group made sales of electronic products of approximately HK$535,000 to SVLL, 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 and on terms in accordance with the arrangements.

34. SUBSEQUENT EVENT

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

a. On 5 May 2003, a total of 123,000,000 share options were granted to certain executive directors and employees of the Group. Up to 15 July 2003, 550,000 options were exercised by certain employees at exercise price of HK$1.23 per share.

b. Pursuant to the Placing and Subscription Agreement dated 2 June 2003 entered into between the Company, a substantial shareholder (the "Vendor") of the Company and two placing agents, 20,000,000 existing shares held by the Vendor were placed to no fewer than six independent placees at HK$1.40 per placing share. Further, the Company issued 20,000,000 new shares to the Vendor at HK$1.40 per subscription share. The shares were issued to the Vendor on 12 June 2003.

35. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 15 July 2003.