

Advanced Technology





REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

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

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

RESULTS AND APPROPRIATIONS

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

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

RESERVES

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

SHARE CAPITAL AND SHARE OPTIONS

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

DISTRIBUTABLE RESERVES

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

PROPERTY, PLANT AND EQUIPMENT

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



REPORT OF THE DIRECTORS

RETIREMENT SCHEMES

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

FIVE-YEAR FINANCIAL SUMMARY

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors

Mr. NG Chi Ho (*Chairman*)

Mr. MA Fung On (*Deputy Chairman*)

Mr. WONG Wai Lik Lamson

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

Independent Non-executive Directors

Professor WONG Sook Leung Joshua

Mr. Murase HIROSHI

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

Non-executive Director

Mr. Kyle Arnold SHAW, Jr.

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

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

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

SHARE OPTION SCHEME

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

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

1. Purpose of the Share Option Scheme

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

2. Eligible participants of the Share Option Scheme

Eligible participants of the Share Option Scheme include:

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

SHARE OPTION SCHEME *(Continued)*

3. Total number of Shares available for issue

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

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

4. Maximum entitlement of each participant

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

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

5. Basis of determining the subscription price

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

6. Exercise period of an option

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

7. Time and payment on acceptance

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

8. Minimum period and performance targets

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

SHARE OPTION SCHEME (Continued)

9. Remaining life of the Share Option Scheme

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

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

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

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

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

Category	Number of share options				Outstanding at 25 July 2005	Exercise price (HK\$)	Date of grant	Exercisable period
	Outstanding at 1 April 2005	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 (Note)	1,800,000	–	–	–	1,800,000	1.23	5 May 2003	5 May 2003 – 4 May 2008
Mr. Wong Wai Lik, Lamson	1,300,000	–	–	–	1,300,000	1.23	5 May 2003	5 May 2003 – 4 May 2008
	1,000,000	–	–	–	1,000,000	1.23	7 May 2004	7 May 2004 – 6 May 2009
Mr. Kyle Arnold Shaw, Jr.	500,000	–	–	–	500,000	1.23	7 May 2004	7 May 2004 – 6 May 2009
Professor Wong Sook Leung Joshua	500,000	–	–	–	500,000	1.23	7 May 2004	7 May 2004 – 6 May 2009
Mr. Murase Hiroshi	500,000	–	–	–	500,000	1.23	7 May 2004	7 May 2004 – 6 May 2009
Continuous contract employees	3,940,000	–	–	680,000	3,260,000	1.23	5 May 2003	5 May 2003 – 4 May 2008
	800,000	–	–	–	800,000	1.23	7 May 2004	7 May 2004 – 6 May 2009
	14,410,000	–	–	680,000	13,730,000			

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

DIRECTORS' INTERESTS IN SHARES

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

(a) Interest in shares of the Company

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

Notes:

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



REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES *(Continued)*

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

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

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

Notes:

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

SUBSTANTIAL SHAREHOLDERS

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

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

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Notes:

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

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

MANAGEMENT CONTRACTS

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

CONTINUING OBLIGATION UNDER THE LISTING RULES

Advance to an Entity

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

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

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



REPORT OF THE DIRECTORS

CONTINUING OBLIGATION UNDER THE LISTING RULES *(Continued)*

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

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

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

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

CODE OF BEST PRACTICE

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PUBLIC FLOAT

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

AUDIT COMMITTEE

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

AUDITORS

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

On behalf of the Board

Suga International Holdings Limited

NG Chi Ho

Chairman

Hong Kong, 25 July 2005