SUGA INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 912

Annual Report 06/07

- **S**ystematic Management
- **U**nderstanding of Customer's Requirements
- **G**ood Quality
- **A**dvanced Technology

CORPORATE OBJECTIVE

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

MISSION STATEMENT

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

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CORPORATE INFORMATION

Board of Directors

Executive

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

Independent Non-executive

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

Company Secretary

Mr. Huen Po Wah

Audit Committee

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

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Legal Advisers

Mallesons Stephen Jaques

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited
Bangkok Bank Public Company Limited

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

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

Bermuda Principal Share Registrar

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

Hong Kong Branch Share Registrar and Transfer Office

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

Public Relations Consultant

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

Contacts

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

FINANCIAL HIGHLIGHTS

	2007 (HK$'000)	2006 (HK$'000)
OPERATING RESULTS		
Revenue	**696,346**	771,968
Gross profit	**90,042**	85,976
Operating profit	**20,681**	14,569
Profit attributable to equity holders of the Company	**12,053**	1,349
Earnings per share – Basic (HK cents)	**5.29**	0.60
Interim dividend, paid, per ordinary share (HK cents)	**0.5**	1.5
Final dividend, proposed, per ordinary share (HK cents)	**2.0**	nil
FINANCIAL POSITION		
Total equity	**238,718**	218,857
Net current assets	**156,150**	119,875
Net cash/(debt)	**3,241**	(93,547)
Capital expenditure	**3,842**	37,327
Net assets value per share (HK cents)	**103.8**	96.0
FINANCIAL RATIOS		
Current ratio	**2.12**	1.43
Debt to equity ratio	**17.5%**	71.5%
Inventory turnover days	**89**	81
Debtors turnover days	**76**	81
Return on average equity	**5.3%**	0.6%

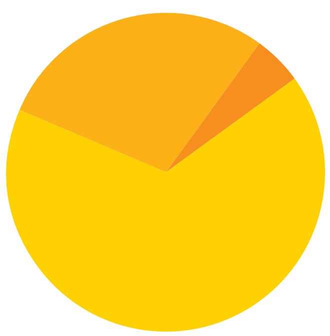
REVENUE BY PRODUCT TYPE

	For the year ended 31 March		
	2007	2006	% Change
	HK$'000	HK$'000	
Consumer Electronics Appliances and other products	**464,051**	430,305	7.8%
Telecommunication Products	**198,987**	293,042	-32.1%
Digital A/V Products	**33,308**	48,621	-31.5%
Total	**696,346**	771,968	-9.8%

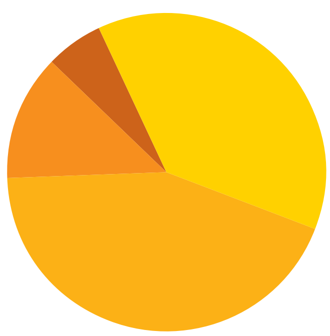
REVENUE BY GEOGRAPHICAL SEGMENT

	For the year ended 31 March		
	2007	2006	% Change
	HK$'000	HK$'000	
The United States of America	**264,683**	296,027	-10.6%
Asia Pacific Region (excluding the PRC)	**303,641**	233,152	30.2%
The PRC	**88,323**	233,743	-62.2%
Europe	**39,699**	9,046	338.9%
Total	**696,346**	771,968	-9.8%

Revenue by Product Type 2007



Revenue by Geographical Segment 2007



Buji Plants

Gross Floor Area: 520,000 sq.ft.
Products: Consumer Electronics
Telecommunication
Digital A/V

Xi Xiang Plants

Gross Floor Area: 120,000 sq.ft.
Products: Networking
Consumer Electronics

Huizhou Plants

Gross Floor Area:	110,000 sq.ft.
Products:	Moulds and Plastics Parts

PRODUCTION FACILITY

Systematic
Management

On behalf of the Board, I present the annual results of Suga International Holdings Limited (the "Company") and its subsidiaries (together, "SUGA" or the "Group") for the fiscal year ended 31 March 2007 ("fiscal year 2007").

FINANCIAL PERFORMANCE

SUGA recorded a turnover of approximately HK$696 million for the year under review, a 9.8% decrease compared with last year. The decline was mainly due to a marked-drop in sales of networking products during the year. Nevertheless, SUGA managed to secure new businesses with higher profit margin and at the same time implemented stringent cost control measures to improve profitability. As a result, the Group's net profit recorded significant growth in fiscal year 2007.

The Group's gross profit increased 4.7% to HK$90 million, against HK$86 million in the previous year; while gross profit margin improved from last year's 11.1% to 12.9% this year.

Profit attributable to shareholders was HK$12.1 million, a surge of 793.5% against last year's HK$1.3 million. Net profit in the second half of fiscal year 2007 was stronger than that in the first half (fiscal year 2007 1H: HK$4.6 million). The Group's decision to focus on higher margin products paid off, as evidenced in the continuously improving results. Net profit margin increased from 0.2% to 1.7% in fiscal year 2007. Basic earnings per share were HK5.29 cents (fiscal year 2006: HK0.60 cent).

FINAL DIVIDEND

The Directors recommended payment of a final dividend of HK2.0 cents per ordinary share (fiscal year 2006: nil) to shareholders whose names appear on the Register of Shareholders of the Company on 28 August 2007. Together with the interim dividend of HK0.5 cent per ordinary share paid earlier, the total dividend for the year amounts to HK2.5 cents per ordinary share (fiscal year 2006: HK1.5 cents per ordinary share). Subject to approval of the Shareholders at the 2007 Annual General Meeting, the final dividend will be paid on or before 6 September 2007. This dividend payment is in line with the Group's policy of paying out not less than 25% of profit attributable to shareholders.

BUSINESS OVERVIEW

Consumer Electronics Appliances

Revenue from consumer electronics appliances business grew significantly to HK$464 million, up 7.8% compared with last year, and accounted for 66.6% of the Group's total revenue. This segment remained as the Group's major source of revenue.

Starting from the end of last fiscal year, the Group has been exploring new businesses with higher margins. We have been looking for opportunities to partner with European customers, who favour working with green manufacturers. SUGA has had a Green Product Management System in place since 2004. Our environmentally conscious strategy has given us the competitive advantage to attract more European customers. During the year, SUGA won two new European customers, one of whom is an OEM customer for Interactive Educational Products. The win is a major milestone for the Group in tapping the educational product sector that promises higher profit margin. The first batch of Interactive Educational Products to the European customer was shipped in August 2006. The other new European customer specializes in producing blue-tooth headsets. Although business with this customer generated only a small revenue during fiscal year 2007, the Group expects order from this customer to grow and translate into more significant profit contributions in the coming year.

Pet training devices continued to achieve steady income and satisfactory gross margin. In fiscal year 2007, the Group's major pet training devices client acquired its key competitor in the US. When the two companies completed consolidation of their businesses, which will be soon, our customer will be the largest pet training devices retailer in the US with more than 50% share of the pet training devices retail market. Having been a partner of this customer for over a decade, SUGA stands to benefit from this merger.

Telecommunication Products

Total revenue of telecommunication products amounted to HK$199 million for the year ended 31 March 2007, a decline of 32.1% compared with last year and accounting for 28.6% of the Group's total revenue. The decrease was mainly due to the substantial drop in orders from one of the Group's major networking products customers in China, who sold a significant portion of its business to another leading networking products provider in China in June 2006. However, with extensive experience in manufacturing networking products, SUGA managed to secure a new Japanese customer and widened the profit margin of its networking products. That helped to partially offset the loss in revenue and profit caused by the reduced order from the networking product customer in China.

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

Digital A/V products reported revenue of HK$33 million, representing a decrease of 31.5% as compared with last year. Facing a very competitive digital A/V market, the Group resolved to adopt a prudent approach and has stopped injecting more resources into digital A/V products trading business since July 2006. Hence, the scale of trading business in the segment has significantly reduced. However, the performance of digital photo albums produced on ODM basis, was satisfactory during the fiscal year. As ODM business promises better profit margin, we will focus on it and collaborate closely with major customers to design and develop more new ODM products with stronger value-added features.

PROSPECTS

Armed with proven manufacturing capabilities, research and development expertise, effective logistic planning and stringent quality assurance processes, SUGA is committed to maintaining focus on higher margin products and providing one-stop EMS to customers. The Group will continue to provide existing partners with tailor-made ODM services and at the same time secure new customers with products that have niche advantages and good growth potential.

The markets for consumer electronics appliances will remain strong in the foreseeable future and provide the Group with strong impetus for growth in the coming fiscal year. The new contract with the European customer in producing Interactive Educational Products will contribute more revenue in the year to come. The customer is ready to tap the PRC market, and will increase its orders substantially. Revenue from this product in the coming fiscal year is expected to be several times more than that in fiscal year 2007. We are confident of such new contracts boosting our revenue and profit. As for business with the other European customer supplying blue-tooth headsets, the satisfactory margins will translate into meaningful profit for the Group.

Furthermore, the Group has recently secured a well known Australian customer who is a world leader in the development and supply of integrated fare management and software systems and smart card systems and services for the transit industry. SUGA has received orders of significant quantities and value from this customer to produce electronic ticket processor and the related contribution will be reflected in fiscal year 2008.

The Group expects its pet training devices to continue to be the major revenue contributor in the consumer electronic appliance business. The Group believes orders for its pet training devices will increase substantially after the client completed the consolidation of its recent acquisition. With also new pet training products in the pipeline to be launched in the coming year, the Group is optimistic about the segment's continuous growth.

As for the telecommunication products business, VoIP phones and key telephone systems continue to generate stable revenues for the Group. For digital A/V products, the resources freed from the trading business will be used to develop niche products with higher profit margins. With strong research and development expertise, SUGA will explore ways to add value to our customers' products, for example, to exploit the popularity of blue-tooth or Wi-Fi wireless and integrate the technology into products like digital photo albums and photo frames. We expect this segment to start bringing in contribution to the Group in fiscal year 2008.

Moving ahead, we are confident that our strategy of focusing on high margin businesses will enhance our competitiveness and profitability. With a clear business direction and a solid outlook, SUGA will strive to bring ample rewards to its shareholders.

APPRECIATION

Finally, I would like to extend my sincere gratitude to our business associates, customers and shareholders for their continuous support. My thanks also go to our dedicated management team and staff for their hard work in the past year.

On behalf of the Board of Directors,

Ng Chi Ho
Chairman

Hong Kong, 17 July 2007

Understanding of Customer´s Requirements

FINANCIAL REVIEW

Revenue

During the year under review, the Group recorded total revenue of approximately HK$696 million, a decrease of 9.8% as compared to last year. The decrease was mainly due to the significant decrease in sales of networking products and digital A/V products.

Consumer electronics appliances achieved sales growth of 7.8% to reach HK$464 million. This segment accounted for 66.6% of the Group's total revenue. Sales of pet training products remain healthy and accounted for 51.4% of this segment's total revenue for this year. In addition, the Group has secured a new European OEM customer for Interactive Educational Products and the first batch of products was shipped in August 2006. The sales of Interactive Educational Products accounted for 7.1% of this segment.

The sales of telecommunication products amounted to HK$199 million for the year, representing a decline of 32.1% as compared with that of last year. This segment accounted for 28.6% of Group's revenue, down from 38.0% last year. The significant drop in revenue was mainly due to substantial drop in orders, amounted to about HK$122 million, from one of the Group's major networking products customers in the PRC. The networking products sales this year dropped by 55.9% as compared with last year.

Digital A/V products recorded revenue of HK$33 million for the year, a decrease of 31.5% as compared to last year. This segment accounted for 4.8% of the Group's total revenue. The significant decrease in revenue was primarily due to the Group's prudent approach to reduce the scale of digital A/V trading business from July 2006 onwards and concentrate on niche ODM products. Sales of ODM products accounted for 55.2% of this segment's total sales, up from 37.9% last year.

Geographically, Asia Pacific Region become the major market during the year under review, revenue has increased by HK$70.5 million as compared to last year, representing 43.6% of total revenue of the Group. Sales to United States druing the year decreased by HK$31.3 million to HK$264.7 million, representing 38.0% of the Group's total revenue.

The sale to Europe recorded a significant growth from HK$9.0 million last year to HK$39.7 million this year. Due to the drop in networking products sale to a customer in China, the sales to the PRC decreased significantly by 62.2% to HK$88.3 million, representing 12.7% of the Group's revenue, down from 30.3% last year.

Profit Attributable to Equity holders of the Company

For the year ended 31 March 2007, the Group's gross profit increased by 4.7% to HK$90 million compared with HK$86 million last year. Gross profit margin increased from 11.1% to 12.9%. The increase in gross profit margin was mainly attributable to the increase in sales of consumer electronics appliances business that generated higher profit margin.

Profit from operations was HK$20.7 million, compared with HK$14.6 million last year, an increased of 42.0%. Total operating expenses decreased slightly by 3.6% to HK$69.8 million from HK$72.4 million last year, representing 10.0% of the Group's total revenue. Research and development cost decreased from HK$6.8 million to HK$3.9 million, approximately 0.6% of Group's sales. The decrease in research and development cost was mainly due to the fact that there was a HK$1.2 million capitalised development cost written off in last year for discontinued projects and we also reduced our research and development expenses for digital A/V products in current year.

Distribution and selling expenses dropped to HK$15.6 million this year from HK$18.5 million last year. The decrease was mainly due to decrease in advertising and promotion, carriage outwards expenses and staff costs on the digital A/V trading business.

MANAGEMENT DISCUSSION AND ANALYSIS

General and administrative expenses for the year amounted to HK$54.3 million, representing an increase of 0.6% as compared to that of last year. The increase was mainly due to increase in depreciation charge and staff costs.

Despite continuous rise in interest rate, finance costs for the year decreased significantly to HK$6.9 million from HK$9.2 million last year. Bank borrowings were also reduced significantly from HK$155 million to HK$42 million resulted from tightening the control on receivables collection, inventory level and capital expenditure during the year.

As a result of the foregoing, profit attributable to equity holders of the Company increased significantly to HK$12.1 million from HK$1.3 million last year, representing an increase of 793.5%.

LIQUIDITY AND FINANCIAL RESOURCES

Net cash inflow from operations during the year was HK$100.9 million (last year: HK$ 17.3 million). The significant improvement in our liquidity was primarily a result of the decrease in inventories held, the trade and other receivables amount and the investment in capital expenditure of HK$34.5 million, HK$49.6 million and HK$33.5 million respectively for the year under review as compared with last year. The cash and bank balances as at the year ended 31 March 2007 amounted to HK$45.1 million, of which 12.8% was in Hong Kong dollars ("HKD"), 59.8% in US dollars ("USD"), 25.3% in Renminbi ("RMB") and 2.1% in other currencies.

As at 31 March 2007, net current assets of the Group maintained at a healthy level of approximately HK$156.2 million with a liquidity ratio of 2.12, up from 1.43 last year. Gearing ratio (calculated by dividing total bank borrowings by total equity) decreased significantly from 71.5% to 17.5%. The Group was able to maintain a net cash of HK$3.2 million as at balance sheet date compared to net borrowings of HK$93.5 million last year.

As at 31 March 2007, the Group had aggregate banking facilities of approximately HK$366 million (2006: HK$405 million) from its principal bankers for overdrafts, loans and trade financing, with unused facilities of HK$267 million (2006: HK$194 million).

The Group generally finances its operations by internally generated resources and banking facilities provided by its principal bankers in Hong Kong. Banking facilities used by the Group include revolving loans, trust receipt loans, overdrafts, leasing and term loans, which are primarily on floating interest rates basis.

During the year under review, the Group fully repaid and prepaid the three years HK$120 million syndicated loan facilities signed on 23 September 2004.

CAPITAL EXPENDITURES

The Group's total capital expenditures for the year was HK$3.8 million of which mainly comprised investment in machineries & equipment in Buji factory for consumer electronics business.

FOREIGN EXCHANGE EXPOSURE

Most of the Group's business transactions are denominated either in HKD, USD or RMB. As USD is pegged to HKD, the Group does not expect any significant movements in the USD/HKD exchange rate.

As all of the Group's production plants are based in the People's Republic of China, most wages and salaries and manufacturing overheads are mainly denominated in RMB. The continued appreciation of RMB since July 2005 inevitably increased our production costs. The Group currently does not have a foreign currency hedging policy. However, management will continue to monitor foreign currency exchange exposure and will take prudence measures to minimize the currency translation risk. The Group will consider hedging significant foreign currency exposure should the need arise.

PLEDGE OF ASSETS

As at 31 March 2007, the Group did not pledge any of its assets (2006: nil) as securities for generating banking facilities granted to the Group.

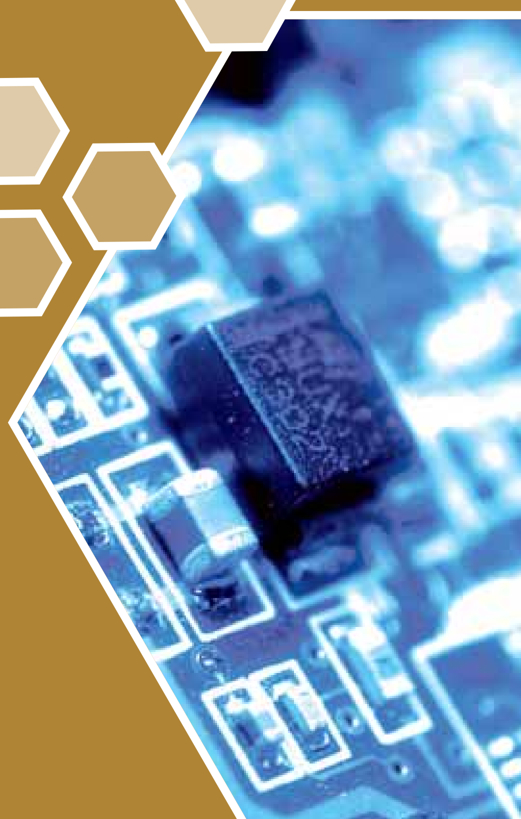
CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 March 2007, the Group had an outstanding capital commitment of approximately HK$18.4 million (2006: HK$29.9 million) for investments in the PRC subsidiaries. Corporate guarantees given to banks to secure the borrowings granted to subsidiaries as at 31 March 2007 amounted to HK$90.6 million (2006: HK$165.2 million) and the Group did not have any significant contingent liability.

HUMAN RESOURCES

As at 31 March 2007 the Group employed 2,197 employees, of which 66 were based in Hong Kong, Macao and Singapore while the rest were mainly in the PRC. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the individual and company performance. In addition to salaries and other usual benefits like annual leave, medical insurance and various mandatory pension schemes, the Group also provides educational sponsorship subsidies, discretionary performance bonus and share options. A share option scheme was adopted on 17 September 2002 which is valid and effective for a period of 10 years from the adoption date, detailed of which are specified in the Section "Share Option Scheme" on page 25.

Good Quality



DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTOR

Mr. NG Chi Ho, aged 57, is the founder, Chairman and Managing Director of the Group. He is responsible for the formulation of corporate strategy, strategic planning and development, and overall management of the Group. Mr. Ng has over 30 years of management experience in the electronics industry and has been a lecturer in electronic engineering at the Hong Kong Polytechnic University for 4 years. Mr. Ng holds a bachelor degree in science from the Chinese University and a master of philosophy degree in computer engineering from the University of Hong Kong. He is also a chartered engineer, a fellow of the Institution of Engineering and Technology, UK and a fellow of the Hong Kong Institute of Directors. In addition, Mr. Ng is a Director of the Applied Research Council, the HKSAR Government, Vice Chairman of Hong Kong Electronic Industries Association Limited ("HKEIA") and the Chairman of the Technology and Application Sub-Committee of the HKEIA.

Mr. MA Fung On, aged 49, is the Deputy Chairman of the Group. Mr. Ma is responsible for the Group's overall strategic planning and policies, as well as overseeing the personnel and administration of the Group. Mr. Ma has worked with the Group for more than 14 years and has over 25 years of experience in the electronics industry. He graduated from the Hong Kong Polytechnic University with a higher diploma in electronic engineering.

Mr. WONG Wai Lik, Lamson, aged 43, is the Executive Director of the Group. He is in charge of the plastic division and the overall manufacturing operations of the Group. Mr. Wong graduated from the Hong Kong Polytechnic University with a higher diploma in production and industrial engineering. He joined the Group in 1992 and has over 20 years of experience in production operations and supervision.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. WONG Sook Leung, Joshua, aged 68, is an independent non-executive Director of the Group. Mr. Wong is presently the Professor Emeritus of the Hong Kong Polytechnic University. He has over 34 years of working experience with tertiary educational institutions including 28 years with the Hong Kong Polytechnic University of which 6 years as the vice president, 2 years as the senior consultant and chair professor in electronic and information engineering department and 16 years as the head of electronic engineering department. Prior to joining the Hong Kong Polytechnic University, he was an associate professor of California State University at Los Angeles, the US from 1968 to 1974. In addition, he was the president of the Hong Kong Association for the Advancement of Science and Technology in 1988/89. Mr. Wong is currently Chairman of the Semiconductor Industries Group in Hong Kong. Mr. Wong obtained his bachelor degree of science in engineering from the University of Hong Kong and his doctor of philosophy degree from Leeds University, UK. He is also a chartered engineer, a fellow of the Institution of Engineering and Technology, UK and a fellow of the Hong Kong Institution of Engineers.

Mr. MURASE Hiroshi, aged 69, is an independent non-executive Director of the Group. Mr. Murase is currently an adviser of Yamato International Inc., Japan. He has 40 years of working experience in Japanese corporations including 34 years with Mitsubishi Corporation, Japan, of which about 13 years he worked in management as a general manager or at higher levels. Mr. Murase also has 14 years' experience working outside Japan including 6 years as manager of the New York Office of Mitsubishi International Corporation, 4 years as general manager of the Foods Department of the London Office of Mitsubishi Corporation, and 4 years as president of Mitsubishi Corporation do Brazil, overseeing Mitsubishi Corporation's business in South America. In addition, Mr. Murase was the senior managing director of Asahimatsu Food Co. Limited from 1995 to 2000. Mr. Murase graduated from Kobe University, Japan with a bachelor degree in business administration.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

INDEPENDENT NON-EXECUTIVE DIRECTOR
(Continued)

Mr. LEUNG Yu Ming, Steven, aged 48, is an independent non-executive Director of the Group. Mr. Leung holds a master degree in Accounting from Charles Sturt University and a bachelor degree in social science from the Chinese University of Hong Kong. Mr. Leung is a certified practising accountant of CPA Australia and a fellow of The Association of Chartered Certified Accountants in the UK, the Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong respectively. Mr. Leung is also a practising certified public accountant in Hong Kong. Mr. Leung previously worked in Nomura International (Hong Kong) Limited as an Assistant Vice President in the International Finance and Corporate Finance Department. He commenced public practice in auditing and taxation since 1990. He is now the senior partner of W.S. Wong & Co., Certified Public Accountants. Mr. Leung has over 22 years of experience in accounting, taxation, financial management and corporate finance.

SENIOR MANAGEMENT

Mr. LEE Yiu Cheung, Alex, aged 50, is the Chief Financial Officer and Qualified Accountant of the Group. Mr. Lee is responsible for overseeing the corporate and financial matters of the Group. Mr. Lee is a practising certified public accountant in Hong Kong. He is also an associate member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Mr. Lee joined the Group in early 2005 and has over 27 years of experience in corporate finance, accounting and auditing. Before joining the Group, he worked for a blue chip listed company in Hong Kong for over 17 years in a senior executive position. Mr. Lee graduated from the Hong Kong Polytechnic University with a higher diploma in accountancy. Mr. Lee is the brother-in-law of Mr. Ng Chi Ho, the Chairman and Managing Director of the Group.

Mr. KONG Ka Kong, Kenneth, aged 38, is the General Manager of the pet products division of the Group and is responsible for overseeing the overall operation of the division. He joined the Group in 1991 and has over 13 years of experience in the pet industry. Mr. Kong holds a master degree of Business from University of Newcastle.

Ms. WONG Sin, Kathy, aged 37, is the General Manager of the networking products division of the Group and is responsible for overseeing the overall operation of the division. Ms. Wong holds a master degree in EMBA from Shanghai Jiao Tong University in the PRC. She joined the Group in 2002 and has over 14 years of experience in the electronics manufacturing industry.

Mr. YEUNG Wai Hung, Jimmy, aged 38, is the General Manager of the EMS division of the Group. Mr. Yeung joined the Group in 2002 and is responsible for the overall operation of the division. Mr. Yeung graduated from the Hong Kong Polytechnic University with a higher diploma in manufacturing engineering and has over 14 years of experience in electronic industry.

Advanced Technology

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices as set out in the Code of Corporate Governance Practice (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company has applied the principles and complied with the CG Code except for certain deviations from CG Code A.4.2 in respect of the service term, rotation and re-election of directors and CG Code A.2.1 in respect of the roles of Chairman and Chief Executive Officer should be separate.

To ensure compliance with the CG Code A 4.2, the Company's Bye-Laws were amended during the fiscal year 2007 to align with certain provisions of the CG Code and some minor housekeeping amendments of the Listing Rules.

CG Code A2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Up to the date of this report, the Group does not have a separate Chairman and Chief Executive Officer and Mr. Ng Chi Ho currently holds both positions. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies. Going forward, the Group will periodically review the effectiveness of this arrangement and considers appointing an individual as Chief Executive Officer when it thinks appropriate.

Save the abovementioned deviations, none of the directors of the Company is aware of information that would reasonably indicate the Company is not or was not for the year under review, in compliance with the code provisions set out in the CG Code.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business and decision making are regulated in a proper and prudent manner.

BOARD OF DIRECTORS

The Group's overall management is vested in its board of directors, which now comprises six members, coming from diverse businesses and professional backgrounds. The Board consisted of three executive directors, namely Mr. Ng Chi Ho (Chairman), Mr. Ma Fung On (Deputy Chairman) and Mr. Wong Wai Lik, Lamson and three independent non-executive directors ("INED") Professor Wong Sook Leung, Joshua, Mr. Murase Hiroshi and Mr. Leung Yu Ming, Steven (collectively the "Directors"). There is no financial, business or family relationship between the Directors. The principal functions of the Board are to supervise the group's business and affairs; to review the Group's financial performance; to review the Group's systems of internal control; to approve the strategic plans, investment and funding decision. For the financial reporting accountability, the Board has the ultimate responsibility for preparing the financial statement. When the Directors are aware of any events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, such events or conditions will be clearly set out and discussed in this Corporate Governance Report. The management team is delegated the power to execute the business strategies, develop and implement the policies in the daily operation of the Group.

The role of INED is to bring an independent and objective view to the Board's deliberations and decisions. The Company has received from each of the INED an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent.

The Board meets at least four times annually to review business development and overall strategic policies. The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each regular board meeting. At least 14 days notice of a regular board meeting is given to all directors to give them the opportunity to attend. Board papers are dispatched to the directors at least three days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting.

The Board conducted a review of the Group's internal control system for the year ended 31 March 2007. The Board assessed the effectiveness of internal control by considering reviews performed by the Audit Committee, executive management and the independent auditors' management letters, if any.

BOARD OF DIRECTORS *(Continued)*

The attendance record of the Board meeting during the year is as follow:

Number of meetings	**4**
Name of directors	**Meeting attended**
Mr. Ng Chi Ho *(Chairman)*	4
Mr. Ma Fung On *(Deputy Chairman)*	4
Mr. Wong Wai Lik, Lamson	4
Professor Wong Sook Leung, Joshua	4
Mr. Murase Hiroshi	4
Mr. Leung Yu Ming, Steven	3

INDEPENDENT AUDITOR

The Group's independent auditor is PricewaterhouseCoopers ("PwC"). The financial reporting responsibilities of the independent auditor are set out on pages 33 to 34 of this annual report.

During the year, remuneration of approximately HK$1,453,000 was payable to PwC for the provision of audit services. In addition, approximately HK$353,000 was payable to PwC for other non-audit services. The non-audit services mainly consist of tax compliance and other services.

AUDIT COMMITTEE

The Audit Committee comprises three INEDs. The Chairman of the Audit Committee is Professor Wong Sook Leung, Joshua. The meetings of the Audit Committee are held not less than twice a year to review and discuss the interim and annual financial statements respectively. Additional meetings may also be held by the Committee from time to time to discuss special projects or other issues of which the Committee considers necessary.

The main duties of the Committee are as follows:

– To consider the appointment of the independent auditors, the audit fee, and any questions of resignation or dismissal of the independent auditors;

– To discuss with the independent auditors the nature and scope of the audit;

– To review the half-year and annual financial statements before submission to the Board;

– To discuss problems and reservations arising from the interim review and final audit, and any matters the independent auditors may wish to discuss;

– To review the independent auditors' management letter and the management's response;

– To review the Group's internal control system;

– To consider the major findings of any internal investigation and the management's response;

– To consider other matters, as defined or assigned by the Board from time to time.

The attendance record of the Audit Committee meetings during the year is as follows:

Number of meeting	**2**
Member of Audit Committee	**Meeting attended**
Professor Wong Sook Leung Joshua	2
Mr. Murase Hiroshi	2
Mr. Leung Yu Ming Steven	1

During the year, the Audit Committee reviewed the fiscal year 2006 annual report and fiscal year 2007 interim report, reviewed and discussed the financial results and internal control system of the Group, conducted discussions with the independent auditors on financial reporting, compliance, and reported all relevant matters to the Board.

The Audit Committee has also reviewed the fiscal year 2007 annual report in a meeting held on 11 July 2007.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three INEDs and is currently chaired by professor Wong Sook Leung, Joshua. No director or senior executive will be involved in any discussion in connection with his or her own remuneration. The meeting of the Remuneration Committee shall normally be held not less than once a year.

The Committee's principal responsibilities are reviewing remuneration packages of directors and senior management and make recommendations to the Board on the remuneration structure. It also reviews and guides the formulation of the Group's performance related pay schemes. Term of reference which described the authority and duties of the Remuneration Committee was adopted by the Board on August 2005 and the contents of which are in compliance with the Code Provisions of the CG Code.

The attendance record of the Remuneration Committee meeting during the year is as follow:

Number of meeting	**2**
Member of the Remuneration Committee	**Meeting attended**
Professor Wong Sook Leung, Joshua	2
Mr. Murase Hiroshi	2
Mr. Leung Yu Ming, Steven	2

NOMINATION COMMITTEE

The Nomination Committee comprises three INEDs and is currently chaired by Professor Wong Sook Leung, Joshua. The meeting of the Nomination Committee shall normally be held not less than once a year. The Committee will identify qualified candidates to fill the Board membership whenever such vacancy arises. It will nominate such candidates for the Board to consider, and regularly review the composition of the Board as well as make suggestions as to any change that may be required.

The attendance record of the Nomination Committee meeting is as follow:

Number of meeting	**1**
Member of the Nomination Committee	**Meeting attended**
Professor Wong Sook Leung, Joshua	1
Mr. Murase Hiroshi	1
Mr. Leung Yu Ming, Steven	1

MODEL CODE FOR SECURITIES TRANSACTIONS

The Group made specific enquiry of all directors as to whether they complied with the required standard set out in the Model Code (Appendix 10 of the Listing Rules) regarding their securities transactions. It was confirmed that there was full compliance. The relevant employee who, because of their office in the Group, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

INVESTOR RELATIONS

The Board recognizes the importance of maintaining effective communications with shareholders. In order to develop and maintain continuing relationship with the shareholders of the Company, the Company established various channels to facilitate and enhance communication:

(i) the annual general meeting provides a forum for the shareholders of the Company to raise comments and exchange views with the Board,

(ii) the Company makes sure its website at www.suga.com.hk contains the most current information, including annual reports, interim reports, announcements and press releases,

(iii) the management of the Group continually conducts meetings with investors or analysts and provides them with up-to-date and comprehensive information regarding the Company's development.

REPORT OF THE DIRECTORS

The Directors would like to present to the shareholders their report and the audited financial statements of the Company and its subsidiaries (together, "the Group") for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its principal subsidiaries are engaged in the research and development, manufacture and sale of electronic products. Details of the principal activities of the Group's subsidiaries are set out in note 18 to the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segment is set out in note 7 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2007 are set out in the consolidated income statement on page 35 of this annual report.

An interim dividend of HK0.5 cent per ordinary share was paid during the year. The Directors proposed the payment of a final dividend of HK2.0 cents per ordinary share for the year ended 31 March 2007. Total dividend for the year ended 31 March 2007 amounted to HK2.5 cents per ordinary share. The proposed final dividend, if approved at the forthcoming Annual General Meeting of the Company to be held on 28 August 2007 is expected to be paid on or before 6 September 2007 to shareholders of the Company whose names appear on the Register of Shareholders of the Company on 28 August 2007, and for the purpose of determining the entitlements of the shareholders, the register of Shareholders of the Company will be closed from 22 August 2007 to 28 August 2007, both days inclusive.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in the note 30 to the consolidated financial statements.

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 28 and 29 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 March 2007 calculated under Company Act of Bermuda amounted to HK$70,949,000 (2006: HK$65,288,000).

PRE-EMPTIVE RIGHTS

There is no provision 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, SALE OR REDEMPTION OF LISTED SECURITIES

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.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$50,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group is set out in note 15 to the consolidated financial statements.

BANK BORROWINGS

Particular of bank borrowings as at 31 March 2007 are set out in note 23 to the consolidated financial statements.

RETIREMENT SCHEMES

Particulars of retirement schemes are set out in note 34 to the consolidated financial statements.

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 financial statements and reclassified as appropriate, is set out on page 84 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

Independent Non-executive Directors

Professor WONG Sook Leung, Joshua
Mr. MURASE Hiroshi
Mr. LEUNG Yu Ming, Steven

At the forthcoming annual general meeting, Mr. WONG Wai Lik, Lamson and Mr. LEUNG Yu Ming, Steven will retire by rotation in accordance with Bye-law 111 of the Company's Bye-laws and being eligible, offer themselves for re-election.

Each of independent non-executive directors is appointed for a term of one year.

Each of Mr. Ng Chi Ho and Mr. Wong Wai Lik, Lamson, both 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 an initial fixed term of three years commencing from 1 April 2004 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Save as disclosed above, none of the directors proposed for re-election 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, and 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.

3. Total number of Share 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 33,174,000 shares, which represented 14.4% of the issued share capital of the Company.

SHARE OPTION SCHEME *(Continued)*

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 Group 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 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 be less than the highest 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 from the date upon which the offer for the grant of the option is accepted but shall end on any event not later than 10 years from the date of the offer of the 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 the 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.

SHARE OPTION SCHEME *(Continued)*

9. Remaining life of the Share Option Scheme *(Continued)*

Details of the share option movements during the year ended 31 March 2007 under the Scheme Option Scheme are as follows:–

	Number of share options							
	Outstanding at 1 April 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 March 2007	Exercise price (HK$)	Date of grant	Exercisable period
Mr. Ng Chi Ho	2,000,000	–	–	–	2,000,000	1.230	7 May 2004	7 May 2004 – 6 May 2009
	–	2,000,000 (Note 1)	2,000,000 (Note 2)	–	–	0.436	23 March 2007	23 March 2007 – 22 March 2012
Mr. Ma Fung On	1,070,000	–	–	–	1,070,000	1.230	5 May 2003	5 May 2003 – 4 May 2008
	1,000,000	–	–	–	1,000,000	1.230	7 May 2004	7 May 2004 – 6 May 2009
	–	2,000,000 (Note 1)	–	–	2,000,000	0.436	23 March 2007	23 March 2007 – 22 March 2012
Mr. Wong Wai Lik, Lamson	1,300,000	–	–	–	1,300,000	1.230	5 May 2003	5 May 2003 – 4 May 2008
	1,000,000	–	–	–	1,000,000	1.230	7 May 2004	7 May 2004 – 6 May 2009
	–	2,000,000 (Note 1)	–	–	2,000,000	0.436	23 March 2007	23 March 2007 – 22 March 2012
Professor Wong Sook Leung Joshua	500,000	–	–	–	500,000	1.230	7 May 2004	7 May 2004 – 6 May 2009
Mr. Murase Hiroshi	500,000	–	–	–	500,000	1.230	7 May 2004	7 May 2004 – 6 May 2009
Employees	3,210,000	–	–	800,000	2,410,000	1.230	5 May 2003	5 May 2003 – 4 May 2008
	800,000	–	–	–	800,000	1.230	7 May 2004	7 May 2004 – 6 May 2009
	–	4,100,000 (Note 1)	–	–	4,100,000	0.436	23 March 2007	23 March 2007 – 22 March 2012
Others	1,800,000 (Note 3)	–	–	–	1,800,000	1.230	5 May 2003	5 May 2003 – 4 May 2008
	500,000 (Note 4)	–	–	–	500,000	1.230	7 May 2004	7 May 2004 – 6 May 2009
	13,680,000	10,100,000	2,000,000	800,000	20,980,000			

Notes:

1. During the financial year, the closing price of the Company's share immediately before the date (23 March 2007) on which the options were granted was HK$0.430.

2. During the financial year, the weighted average closing price of the Company's share immediately before the date (28 March 2007) on which 2,000,000 share options was exercised was HK$0.483.

3. The 1,800,000 share options are held by Mr. Fung Chi Leung, Mark who resigned as director of the Company on 31 October 2004.

4. The 500,000 share options are held by Mr. Kyle Arnold Shaw, Jr. who resigned as non-executive director of the Company on 31 October 2005.

SHARE OPTION SCHEME *(Continued)*

9. Remaining life of the Share Option Scheme *(Continued)*

Details of the share option movements during the period from 1 April 2007 to 17 July 2007 under the Scheme Option Scheme are as follows:–

	Number of share options							
	Outstanding at 1 April 2007	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 17 July 2007	Exercise price *(HK$)*	Date of grant	Exercisable period
Mr. Ng Chi Ho	2,000,000	–	–	–	2,000,000	1.230	7 May 2004	7 May 2004 – 6 May 2009
Mr. Ma Fung On	1,070,000	–	–	–	1,070,000	1.230	5 May 2003	5 May 2003 – 4 May 2008
	1,000,000	–	–	–	1,000,000	1.230	7 May 2004	7 May 2004 – 6 May 2009
	2,000,000	–	–	–	2,000,000	0.436	23 March 2007	23 March 2007 – 22 March 2012
Mr. Wong Wai Lik, Lamson	1,300,000	–	–	–	1,300,000	1.230	5 May 2003	5 May 2003 – 4 May 2008
	1,000,000	–	–	–	1,000,000	1.230	7 May 2004	7 May 2004 – 6 May 2009
	2,000,000	–	–	–	2,000,000	0.436	23 March 2007	23 March 2007 – 22 March 2012
Professor Wong Sook Leung Joshua	500,000	–	–	–	500,000	1.230	7 May 2004	7 May 2004 – 6 May 2009
Mr. Murase Hiroshi	500,000	–	–	–	500,000	1.230	7 May 2004	7 May 2004 – 6 May 2009
Employees	2,410,000	–	–	–	2,410,000	1.230	5 May 2003	5 May 2003 – 4 May 2008
	800,000	–	–	–	800,000	1.230	7 May 2004	7 May 2004 – 6 May 2009
	4,100,000		500,000 (Note 1)		3,600,000	0.436	23 March 2007	23 March 2007 – 22 March 2012
Others	1,800,000 (Note 2)	–	–	–	1,800,000	1.230	5 May 2003	5 May 2003 – 4 May 2008
	500,000 (Note 3)	–	–	–	500,000	1.230	7 May 2004	7 May 2004 – 6 May 2009
	20,980,000	–	500,000	–	20,480,000			

Notes:

1. During the financial year, the weighted average closing price of the Company's share immediately before the date (19 April 2007), on which 300,000 share options were exercised was HK$0.488. The weighted average closing price of the Company's share immediately before the date (12 June 2007), on which 200,000 share options were exercised was HK$0.527.

2. The 1,800,000 share options are held by Mr. Fung Chi Leung, Mark who resigned as director of the Company on 31 October 2004.

3. The 500,000 share options are held by Mr. Kyle Arnold Shaw, Jr. who resigned as non-executive director of the Company on 31 October 2005.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2007, 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:–

Long position

(a) Interests in shares and underlying shares of the Company

	Number of ordinary share of HK$0.1 each							
Name of Director	Personal interests	Corporate interests	Family interests	Trust/similar interests	Other interests	Total interests	Percentage of issued ordinary share capital	Number of underlying shares held under equity derivaries (Note 1)
Mr. Ng Chi Ho	4,000,000	37,108,000 (Note 2)	100,000,000 (Note 3)	–	–	141,108,000	61.37%	2,000,000
Mr. Ma Fung On	730,000	9,000,000 (Note 4)	–	–	–	9,730,000	4.23%	4,070,000
Mr. Wong Wai Lik, Lamson	500,000	–	–	–	–	500,000	0.22%	4,300,000
Professor Wong Sook Leung, Joshua	–	–	–	–	–	–	–	500,000
Mr. Murase Hiroshi	–	–	–	–	–	–	–	500,000

Notes:

1. These represent the interests in underlying shares in respect of the share opinions granted by the Company, the details of which are set out in the sub-section entitled "Share Option Scheme".

2. 37,108,000 shares are held by Billion Linkage Limited, the entire issued shares of which is held by Mr. Ng Chi Ho and his spouse in equal share.

3. 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.

4. 9,000,000 shares are held by Global Class Enterprises Limited, the entire issued shares of which is held by Mr. Ma Fung On.

DIRECTORS' INTERESTS IN SHARES *(Continued)*

Long position *(Continued)*

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

As at 31 March 2007, each of Mr. Ng Chi Ho and Mr. Ma Fung On held the following non-voting deferred shares of HK$1 each in Suga Electronics Limited, a wholly owned subsidiary of the Company:

Name of shareholder	Number of non-voting deferred shares
Mr. Ng Chi Ho (Note 1)	3,680,000
Mr. Ma Fung On (Note 1)	240,000

Note:

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 hold 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 2007.

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 2007, the following persons (not being a director or chief executive of the Company) had interests or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and which have been recorded in the register kept by the Company pursuant to the section 336 of the SFO.

Name	Number of ordinary shares	Percentage of issued shares
Superior View Inc. (Note 1)	100,000,000	43.49%
Billion Linkage Limited (Note 2)	37,108,000	16.14%
Shaw, Kwei & Partners (Asia) Ltd (Note 3)	12,500,000	5.44%

Notes:

1. The entire issued share capital of Superior View Inc. is ultimately held by Fidelitycorp Limited as the trustee of the C.H. Family Trust, the beneficiaries of which are the family members of Mr. Ng Chi Ho.

2. The entire issued share capital of Billion Linkage Limited is held by Mr. Ng Chi Ho and his spouse in equal share and as such, Mr. Ng is deemed to be interested in all the shares held by Billion Linkage Limited under the SFO.

3. The interests in the 12,000,000 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 2007.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The Group's largest customer for the year accounted for approximately 33.6% of the Group's total revenue and the five largest customers accounted for approximately 73.4% of the Group's total revenue. In addition, the largest supplier of the Group accounted for approximately 12.9% of the Group's purchases while the five largest suppliers of the Group accounted for approximately 24.4% of the Group's total purchases.

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 20 to 22.

PUBLIC FLOAT

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

INDEPENDENT AUDITOR

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

On behalf of the Board
Suga International Holdings Limited
NG Chi Ho
Chairman

Hong Kong, 17 July 2007

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

TO THE SHAREHOLDERS OF SUGA INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Suga International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 35 to 83, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

TO THE SHAREHOLDERS OF SUGA INTERNATIONAL HOLDINGS LIMITED *(Continued)*
(incorporated in Bermuda with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 July 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Revenue	5	**696,346**	771,968
Cost of sales	8	**(606,304)**	(685,992)
Gross profit		**90,042**	85,976
Other income	6	**465**	1,027
Distribution and selling expenses	8	**(15,558)**	(18,498)
General and administrative expenses	8	**(54,268)**	(53,936)
		20,681	14,569
Finance income	9	**1,205**	329
Finance costs	9	**(6,866)**	(9,207)
Finance costs – net	9	**(5,661)**	(8,878)
Share of loss and impairment of an associate		**–**	(2,260)
Profit before income tax		**15,020**	3,431
Income tax expense	10	**(2,967)**	(2,082)
Profit for the year		**12,053**	1,349
Attributable to:			
Equity holders of the Company	11	**12,053**	1,349
Minority interests		**–**	–
		12,053	1,349
Earnings per share for profit attributable to the equity holders of the Company during the year			
– Basic (HK cents)	12	**5.29**	0.60
– Diluted (HK cents)	12	**5.25**	0.60
Dividends	13	**5,749**	3,419

The notes on pages 40 to 83 are an integral part of these consolidated financial statements.

BALANCE SHEETS

As at 31 March 2007

		Group		Company	
		2007	2006	**2007**	2006
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS					
Non-current assets					
Property, plant and equipment	15	**78,028**	94,115	**–**	–
Land use rights	16	**4,443**	4,505	**–**	–
Goodwill	17	**1,059**	1,059	**–**	–
Investment in subsidiaries	18	**–**	–	**65,072**	65,072
Interest in an associate	19	**–**	–	**–**	–
Deferred income tax assets	27	**3,063**	3,489	**–**	–
		86,593	103,168	**65,072**	65,072
Current assets					
Inventories	20	**130,210**	164,695	**–**	–
Trade and other receivables	21	**119,902**	169,531	**193**	499
Tax recoverable		**577**	1,037	**–**	–
Amounts due from subsidiaries	18	**–**	–	**83,892**	76,433
Cash and cash equivalents	22	**45,099**	62,899	**404**	877
		295,788	398,162	**84,489**	77,809
Total assets		**382,381**	501,330	**149,561**	142,881
LIABILITIES					
Current liabilities					
Bank borrowings	23	**41,658**	155,300	**–**	–
Trade and other payables	24	**76,058**	105,772	**1,431**	1,284
Finance lease liabilities	25	**77**	946	**–**	–
Bank advances for factored receivables	26	**8,602**	5,019	**–**	–
Income tax payable		**13,243**	11,250	**–**	–
		139,638	278,287	**1,431**	1,284
Non-current liabilities					
Finance lease liabilities	25	**123**	200	**–**	–
Deferred income tax liabilities	27	**3,902**	3,986	**–**	–
		4,025	4,186	**–**	–
Total liabilities		**143,663**	282,473	**1,431**	1,284

The notes on pages 40 to 83 are an integral part of these consolidated financial statements.

	Note	Group 2007 HK$'000	Group 2006 HK$'000	Company 2007 HK$'000	Company 2006 HK$'000
EQUITY					
Capital and reserves attributable to the equity holders of the Company					
Share capital	28	**22,994**	22,794	**22,994**	22,794
Other reserves	30	**78,442**	69,879	**119,806**	118,387
Retained earnings	30				
– Proposed dividend		**4,609**	–	**4,609**	–
– Others		**132,673**	126,184	**721**	416
		238,718	218,857	**148,130**	141,597
Minority interests		**–**	–	**–**	–
Total equity		**238,718**	218,857	**148,130**	141,597
Total equity and liabilities		**382,381**	501,330	**149,561**	142,881
Net current assets		**156,150**	119,875	**83,058**	76,525
Total assets less current liabilities		**242,743**	223,043	**148,130**	141,597

NG Chi Ho
Director

MA Fung On
Director

The notes on pages 40 to 83 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2007

	Attributable to the equity holders of the Company				
	Share capital HK$'000	**Other reserves** HK$'000	**Retained earnings** HK$'000	**Minority interest** HK$'000	**Total** HK$'000
Balance at 1 April 2005	22,794	66,559	129,052	–	218,405
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	3,320	–	–	3,320
Profit for the year	–	–	1,349	–	1,349
Total recognised income for the year ended 31 March 2006	22,794	69,879	130,401	–	223,074
Dividends paid	–	–	(4,217)	–	(4,217)
Balance at 31 March 2006	22,794	69,879	126,184	–	218,857
Balance at 1 April 2006	22,794	69,879	126,184	–	218,857
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	7,144	–	–	7,144
Profit for the year	–	–	12,053	–	12,053
Total recognised income for the year ended 31 March 2007	22,794	77,023	138,237	–	238,054
Employee share option scheme expenses	–	932	–	–	932
Exercise of share options	200	487	185	–	872
Dividends paid	–	–	(1,140)	–	(1,140)
Balance at 31 March 2007	22,994	78,442	137,282	–	238,718

The notes on pages 40 to 83 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Cash generated from operations	31	**101,048**	21,159
Hong Kong profits tax refund/(paid)		**534**	(3,036)
PRC enterprise income tax paid		**(706)**	(850)
Net cash generated from operating activities		**100,876**	17,273
Cash flows from investing activities			
Purchase of property, plant and equipment		**(3,842)**	(35,704)
Purchase of land use rights		**–**	(1,623)
Proceeds on disposal of unlisted investments		**–**	3,766
Interest received		**1,205**	329
Net cash used in investing activities		**(2,637)**	(33,232)
Cash flow from financing activities			
Issuance of shares upon exercise of share options		**872**	–
Repayment of long-term bank loans		**(77,291)**	(33,334)
New short-term bank loans		**53,089**	72,000
Repayment of short-term bank loans		**(98,389)**	(18,000)
Repayment of capital element of finance lease obligations		**(946)**	(3,925)
Increase in trust receipts bank loans		**8,949**	2,486
Interest paid		**(6,866)**	(9,207)
Dividends paid		**(1,140)**	(4,217)
Net cash (used in)/generated from financing activities		**(121,722)**	5,803
Net decrease in cash and cash equivalents		**(23,483)**	(10,156)
Effect of changes in foreign exchange rates		**5,683**	2,648
Cash and cash equivalents, beginning of year		**62,899**	70,407
Cash and cash equivalents, end of year		**45,099**	62,899

The notes on pages 40 to 83 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries and an associate (together, the "Group") are principally engaged in the research and development, manufacturing and sales of electronic products. The Group has operations mainly in Hong Kong, the People's Republic of China ("the PRC"), Macao and Singapore.

The addresses of the Company's registered office is Clarerdon House, 2 Church Street, Hamilton HM 11, Bermuda.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 17 July 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements comprise the consolidated and company balance sheets as at 31 March 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended, and a summary of significant accounting policies and other explanatory notes.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Standards, amendments and interpretations effective in current year but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 April 2006 but are not relevant to or have no significant impact on the Group's operations:

- HKAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures;
- HKAS 21 (Amendment), Net Investment in a Foreign Operation;
- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 (Amendment), The Fair Value Option;
- HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC) - Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC) - Int 5, Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- HK(IFRIC) - Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment; and
- HK(IFRIC) - Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies.

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations have been published but are not effective for the current year and have not been early adopted:

- HK(IFRIC) - Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC) 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC) - Int 8 from 1 April 2007, but it is not expected to have any significant impact on the Group's consolidated financial statements;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

- HK(IFRIC) - Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC) - Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC) - Int 10 from 1 April 2007, but it is not expected to have any impact on the Group's consolidated financial statements;

- HK(IFRIC) - Int 11, HKFRS 2, Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The Group will apply this interpretation from annual period beginning 1 April 2007, but it is not expected to have any significant impact on the Group's consolidated financial statements;

- HKFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). HKAS 1, Amendments to capital disclosures (effective for annual periods beginning on or after 1 January 2007). The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from 1 April 2007; and

- HKFRS 8, Operating Segments (effective for accounting periods commencing on or after 1 January 2009). The Group will apply HKFRS 8 from annual period beginning on 1 April 2009, but it is not expected to have any significant impact on the Group's consolidated financial statements other than presentation changes and additional disclosures in respect of segment information.

Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

- HK(IFRIC) - Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC) - Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, HK(IFRIC) - Int 9 is not relevant to the Group's operations.

- HK(IFRIC) - Int 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). HK(IFRIC) – Int 12 is not relevant to the Group's operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, 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.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in an associate includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.6).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(b) Associates *(Continued)*

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

In the Company's balance, the investments in associates are stated at cost less provision for impairment losses (Note 2.7). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are, included in the fair value reserve in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost less residual values over their estimated useful lives, as follows:

Buildings	37–42 years
Leasehold improvements	5 years
Plant and machinery	5 years
Furniture and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of an associate is included in investments in an associate. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each geographical location in which it operates (Note 2.7).

2.7 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.11 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.12 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Employee benefits

(a) *Pension obligations*

The Group participates in several defined contribution plans, under which the Group pays fixed contributions into separate entities.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(b) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) *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.

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Provisions *(Continued)*

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.18 Leases

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

(b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders in case of final dividend and the Company's directors in case of interim dividend.

2.20 Financial guarantees

A financial guarantee (a kind of insurance contract) is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument. The Group does not recognise liabilities for financial guarantee at inception, but performs a liability adequacy test at each reporting date by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee would result in a present legal or constructive obligation. If the liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the income statement immediately.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and cash flow interest-rate risk. The Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Foreign currency risk

The Group mainly operates in Hong Kong and the PRC and most of its business transactions, assets and liabilities are principally denominated in HK dollars, U.S. dollars and Renminbi ("RMB"). The fluctuation between different currencies is relatively stable and the Group currently does not have a foreign currency hedging policy. However management will continue to monitor foreign currency exchange exposure and will take prudent measures to minimise the currency translation risk. The Group will consider hedging significant foreign currency exposure should the need arise. The exchange rate of RMB to foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

(ii) Credit risk

The Group's financial assets are trade and other receivables and bank balances, the amounts of those assets stated in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is concentrated on a number of major and long established customers. Trade receivables from the top five customers amounted to approximately 64% of the Group's total trade receivables. The Group has policies in place to ensure that sales are made to customers with appropriate credit history and to limit the amount of credit exposure to individual customer. The Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The Group's past experience in collection of trade receivables falls within the recorded allowances. In order to minimise credit risk to the Group, the Group has certain non-recourse factoring arrangement with banks to cover the credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages its liquidity risk by controlling the level of inventories, closely monitoring the turnover days of receivables, monitoring its working capital requirements and keeping credit lines available.

(iv) Cash flow and fair value interest rate risk

The Group's interest rate risk primarily relates to its bank borrowings. The Group currently does not have hedging policy in respect of the interest rate risk. However, management monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arise.

The Group has no fixed interest rate borrowings, as such the Group does not face with any fair value interest rate risk.

(b) Fair value estimation

The carrying value less impairment provision of trade receivables and payables are reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.6. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Income taxes

The Group is subject to various taxes in a number of jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the period in which such determination is made.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(c) Estimated write-downs of inventories to net realisble value

The Group writes down inventories to net realisble value based on an assessment of the realisability of inventories. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate has been changed.

(d) Estimated provision for impairment of trade receivables

The Group makes provision for impairment of trade receivables based on an assessment of the recoverability of trade receivables. Provisions are applied to bills receivable and accounts receivable where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables and impairment is recognised in the year in which such estimate has been changed.

5. REVENUE

The Group is principally engaged in the research and development, manufacture and sales of electronic products. Revenue recognised during the year are as follows:

	2007 **HK$'000**	2006 HK$'000
Sales of electronic products		
– consumer electronics appliances and other products	**464,051**	430,305
– telecommunication products	**198,987**	293,042
– digital A/V products	**33,308**	48,621
	696,346	771,968

6. OTHER INCOME

	2007 **HK$'000**	2006 HK$'000
Other income		
– Scrap Sales	**465**	1,027

7. SEGMENT INFORMATION

(a) Primary reporting format - business segments:

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

	2007				
	Consumer electronics appliances and other products HK$'000	Telecom- munication products HK$'000	Digital A/V products HK$'000	Eliminations HK$'000	Total HK$'000
Total segment revenue	464,051	198,987	33,308	–	696,346
Inter-segment revenue	11,886	–	–	(11,886)	–
	475,937	198,987	33,308	(11,886)	696,346
Segment results	26,750	2,129	(5,880)	(2,783)	20,216
Other income					465
Finance income					1,205
Finance costs					(6,866)
Income tax expense					(2,967)
Profit for the year					12,053
Segment assets	276,644	54,207	2,791	–	333,642
Unallocated assets					48,739
					382,381
Segment liabilities	64,712	19,132	816	–	84,660
Unallocated liabilities					59,003
					143,663
Other information					
Depreciation	17,019	3,798	287	–	21,104
Amortisation of land use rights	116	10	–	–	126
Capital expenditures	3,496	331	15	–	3,842

7. SEGMENT INFORMATION *(Continued)*

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

	2006				
	Consumer electronics appliances and other products HK$'000	Telecom-munication products HK$'000	Digital A/V products HK$'000	Eliminations HK$'000	Total HK$'000
Total segment revenue	430,305	293,042	48,621	–	771,968
Inter-segment revenue	19,020	–	–	(19,020)	–
	449,325	293,042	48,621	(19,020)	771,968
Segment results	29,617	5,806	(17,983)	(3,898)	13,542
Other income					1,027
Finance income					329
Finance costs					(9,207)
Income tax expense					(2,082)
Share of loss and impairment of an associate					(2,260)
Profit for the year					1,349
Segment assets	284,350	138,834	10,721	–	433,905
Unallocated assets					67,425
					501,330
Segment liabilities	68,796	41,444	551	–	110,791
Unallocated liabilities					171,682
					282,473
Other information					
Depreciation	13,214	5,949	141	–	19,304
Amortisation of land use rights	87	18	–	–	105
Capital expenditures	34,151	2,791	385	–	37,327

7. SEGMENT INFORMATION *(Continued)*

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

Segment assets consist primarily of property, plant and equipment, land use rights, goodwill, inventories and receivables. They exclude deferred income tax assets, tax recoverable, prepayment, deposits and other receivables and operating cash.

Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment (Note 15) and land use rights (Note 16).

(b) Secondary reporting format - geographical segments:

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

(i) Analysis by revenue and segment results - by location of customers

	2007		2006	
		Segment		Segment
	Revenue	**results**	Revenue	results
	HK$'000	**HK$'000**	HK$'000	HK$'000
The United States of America	**264,683**	**22,471**	296,027	27,980
Asia Pacific Region (excluding the PRC)	**303,641**	**(5,212)**	233,152	(19,808)
The PRC	**88,323**	**1,308**	233,743	5,342
Europe	**39,699**	**1,649**	9,046	28
	696,346	**20,216**	771,968	13,542

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

	2007		2006	
	Segment	**Capital**	Segment	Capital
	assets	**expenditure**	assets	expenditure
	HK$'000	**HK$'000**	HK$'000	HK$'000
Hong Kong	**142,347**	**182**	166,623	1,026
The PRC	**190,570**	**3,618**	280,899	35,888
Macao	**48,570**	**42**	47,750	321
Singapore	**894**	**–**	6,058	92
	382,381	**3,842**	501,330	37,327

8. EXPENSES BY NATURE

Expenses included in cost of sales, distribution and selling expenses and general and administrative expenses are analysed as follows:

	2007	2006
	HK$'000	HK$'000
Cost of inventories	**539,647**	632,405
Depreciation of property, plant and equipment		
– owned assets	**21,020**	17,216
– assets held under finance leases	**84**	2,088
Amortisation of land use rights	**126**	105
Loss on disposals of property, plant and equipment	**222**	20
Loss on disposal of financial assets at fair value through profit or loss	**–**	44
Operating lease rental of premises	**2,128**	2,461
Staff costs, including directors' remuneration (Note 14)	**69,711**	58,347
Provision for impairment of trade receivables	**559**	4,420
Provision for obsolete and slow-moving inventories (included in cost of sales)	**–**	1,372
Write back of provision for obsolete and slow-moving inventories (included in cost of sales)	**(1,177)**	–
Auditor's remuneration	**1,453**	1,250
Impairment/amortisation of deferred development cost (included in general and administrative expenses)	**–**	1,226
Research and development cost	**3,941**	6,772
Other expenses	**38,416**	30,700
Total cost of sales, distribution and selling expenses and general and administrative expenses	**676,130**	758,426

9. FINANCE INCOME AND FINANCE COSTS

	2007	2006
	HK$'000	HK$'000
Interest on:		
– bank borrowings wholly repayable within five years	**(6,839)**	(9,005)
– finance lease liabilities	**(27)**	(202)
Finance costs	**(6,866)**	(9,207)
Finance income	**1,205**	329
Finance costs - net	**(5,661)**	(8,878)

10. INCOME TAX EXPENSE

(a) Bermuda and British Virgin Islands income tax

The Company is exempted from taxation in Bermuda until 2016. The Company's subsidiaries in the British Virgin Islands are incorporated under the International Business Acts of the British Virgin Islands and, accordingly, are exempted from the British Virgin Islands income taxes.

(b) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

(c) PRC enterprise income tax

Suga Electronics (Shenzhen) Co., Ltd. ("SESL") , Suga Networks Equipment (Shenzhen) Co., Ltd. ("SNESL"), Pets & Supplies (Shenzhen) Co., Ltd. ("PSSZ"), Nodic-Matsumoto Tooling and Plastic Injection (Huizhou) Co., Ltd. ("Nodic") and Precise Plastic Injection (Shenzhen) Co., Ltd. ("PPISL") are subsidiaries established in the PRC. Being enterprises established in the special economic zones of the PRC, they are subject to PRC enterprise income tax ("EIT") of 15% to 27% on their taxable income in accordance with the relevant PRC tax laws and regulations. SNESL, PSSZ and Nodic are exempt 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 is subject to enterprise income tax at the rate of 7.5%. Nodic is subject to enterprise income tax at the rate of 27% during the year. SESL is subject to enterprise income tax at the rate of 15%. PSSZ and PPISL were in a loss position during the year.

(d) Macao taxation

P&S Macao Commerical Offshore Limited is a subsidiary established in Macao and is exempted from Macao Complementary Tax (2006: nil).

The amount of income tax charged to the consolidated income statement represents:

	2007 **HK$'000**	2006 HK$'000
Current income tax:		
– Hong Kong profits tax	**1,553**	4,092
– Income tax outside Hong Kong	**1,191**	396
– Over-provision in prior years	**(119)**	(227)
Deferred income tax relating to the origination and reversal of temporary differences (Note 27)	**342**	(2,179)
	2,967	2,082

10. INCOME TAX EXPENSE *(Continued)*

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

	2007 **HK$'000**	2006 HK$'000
Profit before income tax	**15,020**	3,431
Calculated at an income tax rate of 17.5% (2006: 17.5%)	**2,629**	600
Effect of difference income tax rates on income arising outside Hong Kong	**(46)**	(207)
Tax loss not recognised	**2,093**	4,939
Expenses not deductible for income tax purpose	**2,147**	3,448
Income not subject to income tax	**(3,737)**	(6,471)
Over-provision in prior years	**(119)**	(227)
Income tax expense	**2,967**	2,082

11. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit attributable to the equity holders of the Company is dealt with in the financial statements of the Company to the extent of a profit of approximately HK$5,869,000 (2006: HK$3,736,000).

12. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007	2006
Profit attributable to equity holders of the Company (HK$'000)	**12,053**	1,349
Weighted average number of ordinary shares in issue ('000)	**227,962**	227,940
Basic earnings per share (HK cents)	**5.29**	0.60

12. EARNINGS PER SHARE *(Continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares which is the share options granted to employees. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2007
Profit attributable to equity holders of the Company (HK$'000)	**12,053**
Weighted average number of ordinary shares in issue ('000)	**227,962**
Adjustments for share options ('000)	**1,596**
Weighted average number of ordinary shares for diluted earnings per share ('000)	**229,558**
Diluted earnings per share (HK cents)	**5.25**

Diluted earnings per share is the same as basic earnings per share in 2006 as the outstanding options for the year ended 31 March 2006 are anti-dilutive.

13. DIVIDENDS

	2007 HK$'000	2006 HK$'000
Interim dividend, paid, of HK0.5 cent, (2006: HK1.5 cents) per ordinary share	**1,140**	3,419
Final dividend, proposed, of HK2.0 cents (2006: nil) per ordinary share	**4,609**	–
	5,749	3,419

At a meeting held on 17 July 2007, the directors proposed the payment of a final dividend of HK2.0 cents per share for the year ended 31 March 2007. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of distributable reserves in the year ending 31 March 2008.

14 EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2007 HK$'000	2006 HK$'000
Wages and salaries	**59,827**	50,320
Bonus	**1,227**	447
Unutilised annual leave	**–**	216
Pension costs – defined contribution plans	**917**	1,307
Social security costs	**1,140**	1,019
Staff welfare	**5,668**	5,038
Share-based compensation expenses	**932**	–
	69,711	58,347

(a) Directors' remuneration and senior management emoluments

The remuneration of every director for the year ended 31 March 2007 is set out below:

		Other emoluments			
	Fees HK$'000	**Salaries and other benefits** HK$'000	**Retirement benefits scheme contributions** HK$'000	**Others (Note (i))** HK$'000	**Total emoluments** HK$'000
Mr. Ng Chi Ho	–	2,556	256	185	2,997
Mr. Ma Fung On	–	1,020	51	185	1,256
Mr. Wong Wai Lik, Lamson	–	984	49	185	1,218
Professor Wong Sook Leung, Joshua	200	–	–	–	200
Mr. Murase Hiroshi	150	–	–	–	150
Mr. Leung Yu Ming, Steven	150	–	–	–	150

The remuneration of every director for the year ended 31 March 2006 is set out below:

		Other emoluments			
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Others (Note (i)) HK$'000	Total emoluments HK$'000
Mr. Ng Chi Ho	–	2,556	226	–	2,782
Mr. Ma Fung On	–	1,005	50	–	1,055
Mr. Wong Wai Lik, Lamson	–	943	47	–	990
Mr. Kyle Arnold Shaw, Jr. (Note (ii))	119	–	–	–	119
Professor Wong Sook Leung, Joshua	175	–	–	–	175
Mr. Murase Hiroshi	150	–	–	–	150
Mr. Leung Yu Ming, Steven	150	–	–	–	150

Notes:

(i) Others include share-based compensation expenses, which represent the amount of share-based payment charged to the consolidated income statement during the year. Refer to Note 29 for details.

(ii) Mr. Shaw resigned as director of the Company on 31 October 2005.

14 EMPLOYEE BENEFIT EXPENSE *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2006: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals (2006: two individuals) during the year are as follows:

	2007 **HK$'000**	2006 HK$'000
Basic salaries, allowances and other benefits in kind	**2,590**	2,686
Contribution to retirement scheme	**90**	134
Share-based compensation expenses	**231**	–
	2,911	2,820

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands		
HK$Nil – HK$1,000,000	**1**	1
HK$1,500,001 – HK$2,000,000	**–**	1
HK$2,000,001 – HK$2,500,000	**1**	–
	2	2

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

15. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Total HK$'000
At 1 April 2005					
Cost	35,219	14,295	61,966	20,586	132,066
Accumulated depreciation	(3,149)	(8,272)	(32,029)	(11,234)	(54,684)
Net book amount	32,070	6,023	29,937	9,352	77,382
Year ended 31 March 2006					
Opening net book amount	32,070	6,023	29,937	9,352	77,382
Exchange differences	–	102	156	95	353
Additions	8,493	1,894	22,063	3,254	35,704
Disposals	–	–	(16)	(4)	(20)
Depreciation	(993)	(2,230)	(12,681)	(3,400)	(19,304)
Closing net book amount	39,570	5,789	39,459	9,297	94,115
At 31 March 2006					
Cost	43,712	16,422	83,003	23,889	167,026
Accumulated depreciation	(4,142)	(10,633)	(43,544)	(14,592)	(72,911)
Net book amount	39,570	5,789	39,459	9,297	94,115
Year ended 31 March 2007					
Opening net book amount	39,570	5,789	39,459	9,297	94,115
Exchange differences	334	212	644	207	1,397
Additions	220	447	2,185	990	3,842
Disposals	–	(29)	(98)	(95)	(222)
Depreciation	(1,101)	(2,397)	(14,174)	(3,432)	(21,104)
Closing net book amount	39,023	4,022	28,016	6,967	78,028
At 31 March 2007					
Cost	44,272	17,386	84,714	25,227	171,599
Accumulated depreciation	(5,249)	(13,364)	(56,698)	(18,260)	(93,571)
Net book amount	39,023	4,022	28,016	6,967	78,028

Depreciation expense of HK$14,228,000 (2006: HK$11,126,000) has been expensed in cost of sales, and HK$6,876,000 (2006: HK$8,178,000) has been expensed in general and administrative expenses.

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	2007 **HK$'000**	2006 HK$'000
Cost	**419**	10,288
Less: Accumulated depreciation	**(175)**	(8,058)
Net book value	**244**	2,230

16. LAND USE RIGHTS

The Group's interests in land use rights represented prepaid operating lease payments and their movements and net book value are analysed as follows:

	Group	
	2007 **HK$'000**	2006 HK$'000
Beginning of the year	**4,505**	2,987
Additions	**–**	1,623
Exchange differences	**64**	–
Amortisation	**(126)**	(105)
End of the year	**4,443**	4,505

	2007 **HK$'000**	2006 HK$'000
Outside Hong Kong, held on leases of between 10 and 50 years	**4,443**	4,505

17. GOODWILL

Movements of goodwill during the year are as follows:

	HK$'000
Year ended 31 March 2006	
Net book amount at 1 April 2005 and 31 March 2006	1,059
At 31 March 2006	
Cost	1,059
Accumulated amortisation	–
Net book amount	1,059
Year ended 31 March 2007	
Net book amount at 1 April 2006 and 31 March 2007	1,059
At 31 March 2007	
Cost	1,059
Accumulated amortisation	–
Net book amount	1,059

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below.

	2007 HK$'000	2006 HK$'000
Telecommunications products/The PRC	**1,059**	1,059

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

17. GOODWILL *(Continued)*

Impairment tests for goodwill (Continued)

	Telecom-munciation
Gross margin	14%
Growth rate	3%
Discount rate	6%

The assumptions have been used for the analysis of each CGU within the business segment.

Management determined budgeted gross margin based on past performance and their expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Based on discounted cash flow forecast prepared by management, the directors are of the view that there is no impairment of goodwill as at 31 March 2007 and 2006.

18. INVESTMENT IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES

(a) Investment in subsidiaries

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**65,072**	65,072

The Directors are of the opinion that the underlying value of investment in subsidiaries is not less than its carrying values as at 31 March 2007.

(b) Amounts due from subsidiaries

The balances due from subsidiaries are unsecured, non-interest bearing and repayable on demand. The carrying values of the amounts due from subsidiaries approximate their fair values.

18. INVESTMENT IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES *(Continued)*

(c) Details of the principal subsidiaries of the Company as at 31 March 2007 are as follows:

Name	Place of incorporation/ establishment and kind of legal entity	Issued share capital/ paid-up capital	Group equity interest 2007	Group equity interest 2006	Principal activities and place of operation
Suga International Limited (vii)	British Virgin Islands, limited liability company	Ordinary shares US$700	100%	100%	Investment holding in Hong Kong
Speedy Source Limited	Hong Kong limited liability company	Ordinary shares HK$2	100%	100%	Trading of electronic products in Hong Kong
Suga Electronics Limited (i)	Hong Kong, limited liability company	Ordinary shares HK$2 Non-voting deferred shares HK$4,000,000 (i)	100%	100%	Trading of electronic products in Hong Kong
Suga Electronics (Shenzhen) Co., Ltd. (ii), (ix)	PRC, limited liability company	HK$33,500,000	100%	100%	Manufacturing of electronic products in the PRC
Suga Networks Hong Kong Limited	Hong Kong, limited liability company	Ordinary shares HK$100,000	100%	100%	Trading of networking devices in Hong Kong
Suga Networks Equipment (Shenzhen) Co., Ltd. ("SNESL") (iii), (ix)	PRC, limited liability company	HK$17,500,000	100%	100%	Manufacturing of networking devices in the PRC
Typhoon International Limited	British Virgin Islands limited liability company	Ordinary shares US$1	100%	100%	Property holding in the PRC

18. INVESTMENT IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES *(Continued)*

(c) Details of the principal subsidiaries of the Company as at 31 March 2007 are as follows: *(Continued)*

Name	Place of incorporation/ establishment and kind of legal entity	Issued share capital/ paid-up capital	Group equity interest		Principal activities and place of operation
			2007	2006	
P&S Macao Commercial Offshore Limited	Macao, limited liability company	Ordinary shares MOP100,000	100%	100%	Trading of pet products in Macao
Pets & Supplies (Shenzhen) Co., Ltd. ("PSSL") (iv), (ix)	PRC, limited liability company	HK$10,000,000	100%	100%	Manufacture of pet products in the PRC
Suga Digital Technology Limited	Hong Kong limited liability company	Ordinary shares HK$2	100%	100%	Design and trading of digital A/V products in Hong Kong
Net-Tech Products Limited	Hong Kong, limited liability company	Ordinary shares HK$2	100%	100%	Trading of electronic products in Hong Kong
Net-Tech Products Pte. Limited	Singapore, limited exempt private company	Ordinary shares SGD20,000	90%	90%	Trading of electronic products in Singapore
Precise Computer Tooling Co., Limited	Hong Kong, limited liability company	Ordinary shares HK$500,000	100%	100%	Manufacture and trading of plastic parts in Hong Kong
Precise Plastic Injection (Shenzhen) Co., Ltd. ("PPISL") (v), (ix)	PRC, limited liability company	HK$3,150,000	100%	100%	Manufacture of plastic parts in the PRC
Nodic-Matsumoto Tooling and Plastic Injection (Huizhou) Co., Limited ("Nodic") (vi), (ix)	PRC, limited liability company	US$3,957,407	100%	100%	Manufacture of plastic parts in the PRC

18. INVESTMENT IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES *(Continued)*

(c) Details of the principal subsidiaries of the Company as at 31 March 2007 are as follows: *(Continued)*

Notes:

(i) The non-voting deferred shares of Suga Electronics Limited are held by Essential Mix Enterprises Limited and Broadway Business Limited, which are owned by Mr. Ng Chi Ho and Mr. Ma Fung On, directors and beneficial shareholders of the Company. 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 the PRC with an approved period of operation of 20 years until June 2014.

(iii) SNESL is a wholly foreign owned enterprise established in the PRC with an approved period of operation of 20 years until October 2022.

(iv) PSSL is a wholly foreign owned enterprise established in the PRC with an approved period of operation of 20 years until April 2024.

(v) PPISL is a wholly foreign owned enterprise established in the PRC with an approved period of operation of 20 years until September 2025.

(vi) Nodic is a wholly foreign owned enterprise established in the PRC with an approved period of operation of 30 year until September 2020.

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

(viii) None of the subsidiaries had any loan capital in issue at any time during the year ended 31 March 2007.

(ix) All subsidiaries established in the PRC have financial accounting year end dated on 31 December in accordance with the local statutory requirements, which is not coterminous with the Group. The consolidated financial statements of the Group were prepared based on the financial statements of these subsidiaries for the twelve months ended 31 March 2007.

19. INTEREST IN AN ASSOCIATE

	Group	
	2007	2006
	HK$'000	HK$'000
Beginning of the year	**–**	2,260
Share of associate's results		
– loss before income tax	**–**	(1,746)
– income tax expense	**–**	–
Impairment loss	**–**	(514)
End of year	**–**	–

19. INTEREST IN AN ASSOCIATE *(Continued)*

The Group's interest in an associate, which is unlisted, is as follows:

Name	Particulars of issued shares held	Country of incorporation	Year	Assets	Liabilities	Revenue	Loss	% Interest held
				HK$'000	HK$'000	HK$'000	HK$'000	
Modern Tech Limited	Ordinary shares HK$10,500,000	Hong Kong, limited liability	2007	105	77	10	546	28.57%
	(2006: HK$10,250,000)	company	2006	609	95	44	1,746	29.27%

20. INVENTORIES

	Group 2007 HK$'000	Group 2006 HK$'000
Raw materials	**96,174**	132,133
Work-in-progress	**23,478**	18,811
Finished goods	**10,558**	13,751
	130,210	164,695

Certain inventories were held under trust receipts bank loan arrangements. The cost of inventories recognised as expense and included in cost of sales amounted to HK$539,647,000 (2006: HK$632,405,000).

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**119,546**	170,852	**–**	–
Less: Provision for impairment	**(9,224)**	(8,665)	**–**	–
Trade receivables, net	**110,322**	162,187	**–**	–
Prepayment, deposits and other receivables	**9,580**	7,344	**193**	499
	119,902	169,531	**193**	499

The carrying values of the Group's trade and other receivables approximate their fair values.

21. TRADE AND OTHER RECEIVABLES *(Continued)*

The ageing analysis of trade receivables is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
0 to 30 days	**98,840**	122,676
31 to 60 days	**4,941**	20,060
61 to 90 days	**1,950**	13,865
91 to 180 days	**4,416**	7,027
Over 180 days	**9,399**	7,224
	119,546	170,852
Less: Provision for impairment	**(9,224)**	(8,665)
Trade receivables, net	**110,322**	162,187

The Group generally granted credit to its customers ranging from 30 to 90 days.

As at 31 March 2007, the trade receivables from five customers accounted for approximately 64% (2006: 75%) of the total trade receivables. The Group's credit risk management is disclosed in Note 3 to the consolidated financial statements.

The carrying amount of trade receivables are denominated in the following currencies:

	Group	
	2007	2006
	HK$'000	HK$'000
Hong Kong dollars	**19,353**	14,327
US dollars	**86,073**	83,974
Renminbi	**4,896**	60,771
Other currency	**–**	3,115
	110,322	162,187

All trade receivables are either repayable within one year or on demand. During the year, the Group recognised a loss of HK$559,000 (2006: HK$4,420,000) for the impairment of its trade receivables. Such loss has been included in general and administrative expenses in the consolidated income statement.

At 31 March 2007, a subsidiary of the Company had factored trade receivables of approximately HK$8,602,000 (2006: HK$5,019,000) (the "Factored Receivables") to banks on a non-recourse basis for cash under certain receivables purchase agreements. As the subsidiary of the Company still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, the proceeds from the factoring of trade receivables have been accounted for as the Group's liabilities and included in "Bank advances for factored receivables" (Note 26).

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**5,789**	7,743	**374**	188
US dollars	**26,965**	35,815	**10**	669
Renminbi	**11,430**	18,287	**5**	5
Other currencies	**915**	1,054	**15**	15
	45,099	62,899	**404**	877

As at 31 March 2007, the effective interest rate on bank deposits was 4.0% (2006: 2.0%), these deposits have an average maturity of 11 days (2006: 34 days).

The conversion of bank balances and cash of the Group denominated in Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

23. BANK BORROWINGS

	Group	
	2007	2006
	HK$'000	HK$'000
Current portion of long-term bank borrowings	**–**	97,291
Trust receipt bank loans	**12,958**	4,009
Other bank borrowings	**28,700**	54,000
	41,658	155,300

The maturity of borrowings is as follows:

	Group					
	Trust receipt bank loans		Bank borrowings		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Within one year	**12,958**	4,009	**28,700**	151,291	**41,658**	155,300

At 31 March 2007, the Group has aggregate banking facilities of approximately HK$366,000,000 (2006: HK$405,052,000) for overdrafts, loans and trade financing.

23. BANK BORROWINGS *(Continued)*

Unused facilities at the same date amounted to approximately HK$266,562,000 (2006: HK$193,507,000). Certain of 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 to the above, the Group has agreed to comply with certain restrictive financial covenants imposed by certain banks.

The effective interest rates at the balance sheet date were as follows:

	2007	2006
	HK$'000	HK$'000
Trust receipt bank loans	**6.0%**	5.5%
Other bank borrowings	**6.1%**	5.3%

The carrying amounts of the borrowings approximate their fair values.

The carrying amounts of the borrowings are denominated in the following currencies:

	Group	
	2007	2006
	HK$'000	HK$'000
Hong Kong dollars	**39,200**	151,291
US dollars	**2,458**	4,009
	41,658	155,300

24. TRADE AND OTHER PAYABLES

The ageing analysis of the trade payables is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
0 to 30 days	**54,186**	70,165	**–**	–
31 to 60 days	**8,849**	7,281	**–**	–
61 to 90 days	**234**	6,087	**–**	–
91 to 180 days	**1,712**	4,329	**–**	–
Over 180 days	**380**	8,492	**–**	–
Trade payables	**65,361**	96,354	**–**	–
Accruals and other payables	**10,697**	9,418	**1,431**	1,284
	76,058	105,772	**1,431**	1,284

The fair values of the Group's trade and other payables approximate their carrying value.

The carrying amount of trade payables are denominated in the following currencies:

	Group	
	2007	2006
	HK$'000	HK$'000
Hong Kong dollars	**20,865**	46,181
US dollars	**35,229**	35,538
Renminbi	**7,587**	14,635
Other currencies	**1,680**	–
	65,361	96,354

25. FINANCE LEASE LIABILITIES

At 31 March 2007, the Group's finance lease liabilities were repayable as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**85**	973
In the second to fifth year	**127**	212
	212	1,185
Less: future finance charges on finance leases	**(12)**	(39)
	200	1,146
Less: current portion	**(77)**	(946)
	123	200

The present value of finance lease liabilities is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**77**	946
In the second to fifth year	**123**	200
	200	1,146

26. BANK ADVANCES FOR FACTORED RECEIVABLES

The Group factored certain receivables to banks in exchange for cash. The transactions have been accounted for as bank advances for the year ended 31 March 2007. The factored receivables to banks and remained outstanding as at 31 March 2007 amounted to HK$8,602,000 (2006: HK$5,019,000).

The fair values of the Group's bank advances for factored receivables approximate their carrying values.

27. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**(3,063)**	(3,489)
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**3,902**	3,986

The movements in the net deferred income tax liabilities/(assets) account are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 April	**497**	2,676
Recognised in income statement (Note 10)	**342**	(2,179)
At 31 March	**839**	497

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax liabilities	**Accelerated tax depreciation**	
	2007	2006
	HK$'000	HK$'000
At 1 April	**4,572**	6,718
Credited to income statement	**(271)**	(2,146)
At 31 March	**4,301**	4,572

27. DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets	Provisions		Tax losses		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 April	**–**	(743)	**(4,075)**	(3,299)	**(4,075)**	(4,042)
Credited/(charged) to income statement	**–**	743	**613**	(776)	**613**	(33)
At 31 March	**–**	–	**(3,462)**	(4,075)	**(3,462)**	(4,075)

As at 31 March 2007, the Group has unrecognised tax losses of HK$26,070,000 (2006: HK$23,611,000) for Hong Kong profits tax purposes with no expiry date and unrecognised tax losses of HK$16,683,000 (2006: HK$9,229,000) for the PRC enterprise income tax that will expire within five years.

New Corporate Income Tax Law

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. The Group has assessed the impact of such new CIT Law and considers that there is no significant effect to the carrying value of deferred income tax balance as at 31 March 2007.

The new CIT Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Company will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively.

28. SHARE CAPITAL

	Number of shares	**Nominal value**
	'000	HK'000
Authorised - ordinary shares of HK$0.1 each	2,000,000	200,000
Issued and fully paid - ordinary shares of HK$0.1 each		
At 1 April 2005 and 31 March 2006	227,940	22,794
At 1 April 2006	227,940	22,794
Issue of shares upon exercise of share options (Note (a))	2,000	200
At 31 March 2007	229,940	22,994

Note:

(a) During the year, 2,000,000 (2006: nil) ordinary shares of HK$0.1 each were issued upon the exercise of share options (Note 29).

29. SHARE OPTIONS

The Company adopted a share option scheme (the "Share Option Scheme") on 17 September 2002. Pursuant to the Share Option Scheme, the Company may grant share options to certain grantees (including directors and employees) of the Group to subscribe for shares in the Company. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under this Share Option Scheme and any other share option schemes adopted by the Group shall not exceed 30 per cent of the share capital of the Company in issue from time to time. The subscription price will be determined by the directors, and will not be less than the highest of the nominal value of the shares, the closing price of the shares quoted on the Stock Exchange on the trading day of granted the options and the average of the closing prices of the shares quoted on the Stock Exchange for the five trading days immediately preceding the date of granting the options.

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

	2007		2006	
	Average exercise price in HK$ per share	**Number of options '000**	Average exercise price in HK$ per share	Number of options '000
At 1 April	**1.230**	**13,680**	1.23	14,410
Granted	**0.436**	**10,100**	–	–
Exercised	**0.436**	**(2,000)**	–	–
Lapsed/cancelled	**1.230**	**(800)**	1.23	(730)
At 31 March		**20,980**		13,680

As at 31 March 2007 and 2006, all the outstanding options were fully vested and exercisable.

29. SHARE OPTIONS *(Continued)*

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	Exercise price HK$	Number of options 2007 '000	Number of options 2006 '000	Vested percentages 2007	Vested percentages 2006
Directors					
4 May 2008	1.230	**2,370**	2,370	**100%**	100%
6 May 2009	1.230	**5,000**	5,000	**100%**	100%
22 March 2012	0.436	**4,000**	–	**100%**	–
Employees					
4 May 2008	1.230	**2,410**	3,210	**100%**	100%
6 May 2009	1.230	**800**	800	**100%**	100%
22 March 2012	0.436	**4,100**	–	**100%**	–
Ex-directors					
4 May 2008	1.230	**1,800**	1,800	**100%**	100%
6 May 2009	1.230	**500**	500	**100%**	100%
		20,980	13,680		

The fair value of options granted during the year determined using the binomial option pricing model was approximately HK$932,000. The significant inputs into the model were share price of HK$0.43 as at the grant date, exercise price as shown above, volatility of the share of 40%, expected life of options of five years, expected dividend yield of 3% and annual risk-free interest rate of 3.9%. The volatility measured at the standard deviation of expected share price returns is based on the historical volatility of the Company's share price over a period of 4 years before the date when the options were granted.

30. RESERVES

	Group					
	Share premium HK$'000	Capital reserve *(a)* HK$'000	Share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 April 2005	53,515	10,591	–	2,453	129,052	195,611
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	–	3,320	–	3,320
Profit for the year	–	–	–	–	1,349	1,349
Dividends paid	–	–	–	–	(4,217)	(4,217)
At 31 March 2006	53,515	10,591	–	5,773	126,184	196,063
Representing:						
Proposed dividend					–	
Others					126,184	
					126,184	
At 1 April 2006	53,515	10,591	–	5,773	126,184	196,063
Exchange differences arising on translation of the financial statements of foreign subsidiaries	–	–	–	7,144	–	7,144
Profit for the year	–	–	–	–	12,053	12,053
Dividends paid	–	–	–	–	(1,140)	(1,140)
Employee share option scheme expenses	–	–	932	–	–	932
Exercise of share options	672	–	(185)	–	185	672
At 31 March 2007	**54,187**	**10,591**	**747**	**12,917**	**137,282**	**215,724**
Representing:						
Proposed dividend					4,609	
Others					132,673	
					137,282	

Note:

(a) The capital reserve of the Group comprises (i) an amount of HK$3,800,000 representing the difference between the nominal value of the ordinary shares issued by the Company and the aggregate amount of the share capital and share premium of subsidiaries acquired through an exchange of shares pursuant to the Group's reorganisation in September 2002; and (ii) an amount of HK$6,791,000 representing the result of operation attributed to the original shareholders of a subsidiary prior to the acquisition of the remaining shares in August 1998.

30. RESERVES *(Continued)*

	Company				
	Share premium HK$'000	Contributed surplus HK$'000	Share-based compensa-tion reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 April 2005	53,515	64,872	–	897	119,284
Profit for the year	–	–	–	3,736	3,736
Dividends paid	–	–	–	(4,217)	(4,217)
At 31 March 2006	53,515	64,872	–	416	118,803
Representing:					
Proposed dividend				–	
Others				416	
				416	
At 1 April 2006	53,515	64,872	–	416	118,803
Profit for the year	–	–	–	5,869	5,869
Dividends paid	–	–	–	(1,140)	(1,140)
Employee share option scheme expenses	–	–	932	–	932
Exercise of share options	672	–	(185)	185	672
At 31 March 2007	**54,187**	**64,872**	**747**	**5,330**	**125,136**
Representing:					
Proposed dividend				4,609	
Others				721	
				5,330	

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

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

31. CASH GENERATED FROM OPERATIONS

Reconciliation of profit for the year to net cash generated from operations

	2007 HK$'000	2006 HK$'000
Profit for the year	**12,053**	1,349
– Income tax expense	**2,967**	2,082
– Depreciation of property, plant and equipment	**21,104**	19,304
– Amortisation of land use rights	**126**	105
– Loss on disposals of property, plant and equipment	**222**	20
– Interest income	**(1,205)**	(329)
– Interest expense	**6,866**	9,207
– Share-based compensation expenses	**932**	–
– Share of loss and impairment of an associate	**–**	2,260
– Impairment/amortisation of deferred development cost	**–**	1,226
– Loss on disposal of financial assets at fair value through profit or loss	**–**	44
	43,065	35,268
Changes in working capital:		
– Inventories	**34,485**	(24,304)
– Trade and other receivables	**53,212**	10,476
– Trade and other payables	**(29,714)**	(281)
Cash generated from operations	**101,048**	21,159

32. FINANCIAL GUARANTEE

As at 31 March 2007, the Company had provided guarantees in respect of banking facilities of its subsidiaries amounting to approximately HK$342,400,000 (2006: HK$354,792,000). The facilities utilised by the subsidiaries as at 31 March 2007 amounted to HK$90,636,000 (2006: HK$165,196,000).

33. COMMITMENTS

(a) Operating lease commitments

At 31 March 2007, the Group had future aggregate minimum lease payments in respect of rented premises under non-cancellable operating leases as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Not later than one year	**1,940**	1,572
Later than one year and not later than five years	**964**	505
	2,904	2,077

The Company did not have any significant commitments as at 31 March 2007 (2006: nil).

(b) Capital commitments

	Group	
	2007	2006
	HK$'000	HK$'000
Contracted but not provided for	**18,382**	29,940

The Company did not have any significant commitments as at 31 March 2007 (2006: nil).

Note: The balance of contracted but not provided for represents amount committed for investments in the PRC subsidiaries.

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

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

For the year ended 31 March 2007, the aggregate amount of the Group's contributions to the aforementioned pension schemes were approximately HK$2,057,000 (2006: HK$2,326,000).

35. RELATED PARTY TRANSACTIONS

(a) During the year, the Company has the following related party transactions:

	2007 HK$'000	2006 HK$'000
Technical consultancy fee paid to Micom Tech Limited (Note (i))	200	630
License fee paid to Micom Tech Limited (Note (i))	206	399
Sales of electronics products to an associate	226	175

Notes:

(i) Mr. Ng Chi Ho, a director of the Company, holds interests and is a director of Micom Tech Limited.

(ii) In the opinion of the directors, the above transactions were carried out in the normal course of the Group's business and conducted at terms mutually agreed by the respective parties.

(b) Key management compensation

Remuneration of key personnel management, including amount paid to the Company's directors and certain of the highest paid employee, as disclosed in Note 14, is as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other short-term employee benefits	7,935	8,418
Post-employment benefits	485	486
Share-based compensation expenses	821	–
	9,241	8,904

FIVE YEAR FINANCIAL SUMMARY

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

	For the year ended 31 March				
	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007** **HK'000**
CONSOLIDATED RESULTS					
Revenue	453,344	600,911	591,424	771,968	**696,346**
Operating profit	46,240	48,660	26,289	14,569	**20,681**
Continuing operation	48,407	48,660	26,289	14,569	**20,681**
Discontinuing operation	(2,167)	–	–	–	**–**
Profit before income tax	43,781	46,282	21,810	3,431	**15,020**
Income tax expense	(5,069)	(2,376)	(2,593)	(2,082)	**(2,967)**
Profit for the year	38,712	43,906	19,217	1,349	**12,053**
Minority interest	(425)	(1,063)	9	–	**–**
Profit attributable to the equity holders of the Company	38,287	42,843	19,226	1,349	**12,053**

	As at 31 March				
	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007** **HK$'000**
CONSOLIDATED ASSETS AND LIABILITIES					
Property, plant and equipment	62,755	66,598	77,382	94,115	**78,028**
Land use rights	–	–	2,987	4,505	**4,443**
Goodwill/negative goodwill	(10,990)	(9,263)	(9,543)	1,059	**1,059**
Deferred development cost	–	1,333	1,226	–	**–**
Interest in an associate	–	–	2,260	–	**–**
Unlisted investment	3,510	3,810	3,810	–	**–**
Deferred income tax assets	–	412	2,515	3,489	**3,063**
Current assets	207,041	368,970	389,650	398,162	**295,788**
Current liabilities	(116,167)	(188,388)	(175,046)	(278,287)	**(139,638)**
Net current assets	90,874	180,582	214,604	119,875	**156,150**
Total assets less current liabilities	146,149	243,472	291,431	223,043	**242,743**
Bank borrowings	(1,943)	(35,522)	(77,292)	–	**–**
Finance lease liabilities	(6,541)	(3,573)	(1,145)	(200)	**(123)**
Deferred income tax liabilities	(4,392)	(4,749)	(5,191)	(3,986)	**(3,902)**
Minority interests	(440)	–	–	–	**–**
Total equity	132,833	199,628	207,803	218,857	**238,718**

Note:

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