SUGA INTERNATIONAL HOLDINGS LIMITED
信佳國際集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock code: 912)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

FINANCIAL HIGHLIGHTS

– Revenue amounted to HK$863.0 million (2017: HK$738.9 million)

– Gross profit was HK$116.9 million (2017: HK$116.8 million)

– Profit attributable to owners of the Company was HK$31.6 million (2017: HK$41.8 million)

– Basic earnings per share was HK11.17 cents (2017: HK14.83 cents)

– The Board proposed an interim dividend of HK6.0 cents per share (2017: interim dividend of HK7.0 cents per share)

INTERIM RESULTS

The Board of Directors (the "Board") of Suga International Holdings Limited (the "Company") would like to announce the unaudited condensed consolidated results of the Company and its subsidiaries (together "SUGA" or the "Group") for the six months ended 30 September 2018:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

		Six months ended 30 September	
		2018	2017
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	3	**863,009**	738,943
Cost of sales	5	**(746,151)**	(622,108)
Gross profit		**116,858**	116,835
Other income		**2,993**	1,322
Other (losses) /gains, net	4	**(579)**	47
Distribution and selling expenses	5	**(26,817)**	(18,988)
General and administrative expenses	5	**(55,520)**	(51,412)
Operating profit		**36,935**	47,804
Finance income	6	**1,939**	1,866
Finance costs	6	**(2,306)**	(2,434)
Finance costs – net		**(367)**	(568)
Share of loss of associates		**(1,075)**	(975)
Profit before income tax		**35,493**	46,261
Income tax expense	7	**(4,118)**	(4,866)
Profit for the period		**31,375**	41,395
Attributable to:			
Owners of the Company		**31,571**	41,793
Non-controlling interests		**(196)**	(398)
		31,375	41,395
Earnings per share for profit attributable to owners of the Company during the period			
– Basic (HK cents)	8	**11.17**	14.83
– Diluted (HK cents)	8	**11.16**	14.72
Dividends	9	**16,961**	19,746

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period	**31,375**	41,395
Other comprehensive (loss)/income:		
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign subsidiaries	**(33,151)**	22,820
Fair value loss on financial assets at fair value through other comprehensive income	**(195)**	(10,867)
Other comprehensive (loss)/income for the period	**(33,346)**	11,953
Total comprehensive (loss)/income for the period	**(1,971)**	53,348
Attributable to:		
Owners of the Company	**(1,775)**	53,746
Non-controlling interests	**(196)**	(398)
	(1,971)	53,348

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2018

	Note	**30 September 2018** **HK$'000** **(Unaudited)**	31 March 2018 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**268,616**	297,178
Land use rights		**49,413**	51,994
Intangible assets		**3,276**	3,319
Goodwill		**3,949**	3,949
Interests in associates		**2,548**	3,623
Financial assets at fair value through other comprehensive income		**7,095**	–
Available-for-sale financial assets		–	6,242
Financial assets at fair value through profit or loss		**10,995**	3,757
Loan receivable	10	**1,625**	–
Deferred income tax assets		**1,729**	1,782
Other non-current receivables	10	**3,537**	3,074
		352,783	374,918
Current assets			
Inventories		**298,975**	268,742
Trade and other receivables	10	**323,403**	233,201
Loan receivable	10	**912**	2,500
Tax recoverable		**1,255**	1,097
Amount due from associates		**2,031**	4,149
Time deposits over three months		–	15,500
Cash and cash equivalents		**114,884**	165,105
		741,460	690,294
Total assets		**1,094,243**	1,065,212
LIABILITIES			
Non-current liabilities			
Bank borrowings		**2,429**	3,759
Deferred income tax liabilities		**321**	504
		2,750	4,263

	Note	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Current liabilities			
Trade and other payables	11	**317,536**	258,093
Contract liabilities		**10,962**	–
Income tax payable		**9,916**	6,096
Bank borrowings		**44,097**	65,155
		382,511	329,344
Total liabilities		**385,261**	333,607
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**28,269**	28,214
Other reserves		**91,502**	122,940
Retained earnings		**587,942**	578,986
		707,713	730,140
Non-controlling interests		**1,269**	1,465
Total equity		**708,982**	731,605
Total equity and liabilities		**1,094,243**	1,065,212

Notes:

1. BASIS OF PREPARATION

This unaudited interim condensed consolidated financial information for the six months ended 30 September 2018 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". This interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty are the same as those that applied to the annual financial statements for the year ended 31 March 2018.

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2018, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new and amended standards to HKFRSs effective for the financial year ending 31 March 2019.

(a) Amendments to existing standards adopted by the Group.

The following amendments to existing standards are mandatory for the Group's financial year beginning on or after 1 April 2019 and have been adopted in the preparation of the interim condensed consolidated financial information.

Amendments to HKFRS 1	First time adoption of HKFRS
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts
HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
Amendment to HKFRS 15	Clarification to HKFRS15
Amendments to HKAS 28	Investments in associates and joint ventures
Amendments to HKAS 40	Transfers of investment property
HK(IFRIC) 22	Foreign currency transactions and advance consideration

The impact of the adoption of these standards and the new accounting policies are disclosed in note 12 below. The other standards did not have any impact on the Group's accounting policies and did not require adjustments.

(b) New standards and amendment to existing standards not yet adopted

The following new standards and amendment to existing standards have been issued but are not effective for the financial year beginning on 1 April 2018 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKFRS 9	Prepayment features with negative compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be announced by HKICPA

None of the above new standards and amendments to existing standards is expected to have a significant effect on the consolidated financial statements of the Group except for HKFRS 16, “Leases”. For details, please refer to note 2.1 of the Group’s annual consolidated financial statements for the year ended 31 March 2018.

3. REVENUE AND SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Executive Directors (collectively referred to as the “CODM”) that make strategic decisions. The CODM reviews the internal reporting of the Group in order to assess performance and allocate resources and makes relevant decisions based on the entity-wide financial information.

There are two reportable segments for the Group:

Electronic products - Develop, manufacture and sale of electronic products
Pet related products - Manufacture and distribute of pet related products

Such segmentation is the result of a group restructuring underwent during the year ended 31 March 2018. The comparative segment information for the six months ended 31 September 2017 has been reclassified to align with the presentation of the latest segment information disclosure.

The segment information provided to the CODM for the reportable segments for the period ended 30 September 2018 and 2017 is as follows:

	Six month ended 30 September 2018			
	Electronic products	Pet related products	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
Revenue from external customers	727,038	135,971	–	863,009
Inter-segment revenue	95,320	58,770	(154,090)	–
	822,358	194,741	(154,090)	863,009
Segment results	35,971	10,447		46,418

A reconciliation of segment results to profit for the period is as follows:

Segment results	46,418
Unallocated expenses, net	(11,897)
Other income	2,993
Other gains, net	(579)
Operating profit	36,935
Finance income	1,939
Finance costs	(2,306)
Share of losses of associates	(1,075)
Profit before income tax	35,493
Income tax expense	(4,118)
Profit for the period	31,375

	Six month ended 30 September 2018			
	Electronic products	Pet related products	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Other segment information				
Depreciation on property, plant and equipment	15,748	184	1,012	16,944
Amortisation of intangible assets	643	–	–	643
Amortisation of land use rights	537	–	26	563
Additions to non-current assets (other than interests in associates, financial assets and deferred tax assets)	7,591	120	791	8,502

	Six month ended 30 September 2017 (Restated)			
	Electronic products	Pet related products	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
Revenue from external customers	593,160	145,783	–	738,943
Inter-segment revenue	102,010	92,151	(194,161)	–
	695,170	237,934	(194,161)	738,943
Segment results	36,216	19,519		55,735

A reconciliation of segment results to profit for the period is as follows:

Segment results	55,736
Unallocated expenses, net	(9,301)
Other income	1,322
Other gains, net	47
Operating profit	47,804
Finance income	1,866
Finance costs	(2,434)
Share of losses of associates	(975)
Profit before income tax	46,261
Income tax expense	(4,866)
Profit for the period	41,395

	Six month ended 30 September 2017 (Restated)			
	Electronic products	Pet related products	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Other segment information				
Depreciation on property, plant and equipment	15,094	154	921	16,169
Amortisation of intangible assets	986	–	–	986
Amortisation of land use rights	547	–	–	547
Additions to non-current assets (other than interests in associates, financial assets and deferred tax assets)	7,926	202	151	8,279

The segment assets and segment liabilities for the period ended 30 September 2018 and for the years ended 31 March 2018 and the reconciliation to the total assets and total liabilities are as follows:

	Six month ended 30 September 2018		
	Electronic products	**Pet related products**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**
Segment assets	**931,466**	**52,557**	**984,023**
Unallocated:			
Property, plant and equipment			**49,115**
Interests in associates			**2,548**
Deferred income tax assets			**1,729**
Amounts due from associates			**2,031**
Loan receivable			**2,537**
Tax recoverable			**1,255**
Other investments			**18,090**
Cash and cash equivalents			**23,207**
Other unallocated assets			**9,708**
Total assets per consolidated balance sheet			**1,094,243**
Segment liabilities	**270,119**	**2,304**	**272,423**
Unallocated:			
Bank borrowings			**46,526**
Deferred income tax liabilities			**321**
Trade payables			**48,419**
Income tax payable			**9,916**
Other unallocated liabilities			**7,656**
Total liabilities per consolidated balance sheet			**385,261**

	As at 31 March 2018		
	Electronic products	Pet related products	Total
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)
Segment assets	850,490	53,650	904,140
Unallocated:			
Property, plant and equipment			49,934
Interest in associates			3,623
Deferred income tax assets			1,782
Amounts due from associates			4,149
Loan receivable			2,500
Tax recoverable			1,097
Other investments			9,999
Cash and cash equivalents			79,312
Other unallocated assets			8,676
Total assets per consolidated balance sheet			1,065,212
Segment liabilities	192,158	4,437	196,595
Unallocated:			
Bank borrowings			68,914
Deferred income tax liabilities			504
Trade payables			54,449
Income tax payable			6,096
Other unallocated liabilities			7,049
Total liabilities per consolidated balance sheet			333,607

An analysis of the Group's revenue from external customers by country of destination for the period ended 30 September 2018 and 2017 is as follows:

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The United States of America	**409,713**	321,749
Japan	**104,492**	126,216
Taiwan	**82,651**	50,887
People's Republic of China (the "PRC", including Hong Kong)	**78,851**	63,401
Australia	**44,721**	57,209
Germany	**38,300**	17,190
United Kingdom	**37,462**	65,992
Others	**66,819**	36,299
	863,009	738,943

An analysis of the Group's non-current assets, excluding deferred income tax assets, by geographical location is as follows:

	As at 30 September 2018	As at 31 March 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Hong Kong	**80,732**	68,247
Mainland China	**270,321**	304,888
Macao	**1**	1
	351,054	373,136

For the six months ended 30 September 2018 external revenue of approximately HK$122,698,000 (2017: HK$139,133,000) was generated from one customer, who accounted for more than 10% (2017: 10%) of the Group's revenue. No other customers individually accounted for more than 10% of the Group's revenue (2017: Same).

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4. OTHER (LOSSES)/GAINS, NET

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Fair value loss of FVPL	**(585)**	–
Impairment loss of FVOCI	**(502)**	–
Net foreign currency exchange gain	**508**	47
Total other (losses)/gains, net	**(579)**	47

5. EXPENSES BY NATURE

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

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories	**654,669**	538,349
Depreciation of property, plant and equipment	**16,944**	16,169
Amortisation of land use rights	**564**	547
Amortisation of intangible assets	**643**	986
Employee benefit expense (including directors' emoluments)	**103,627**	93,654
Other expenses	**52,041**	42,803
Total cost of sales, distribution and selling expenses, and general and administrative expenses	**828,488**	692,508

6. FINANCE INCOME AND FINANCE COSTS

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest income from:		
– bank deposits	**1,010**	921
– bonds investments	–	215
– others	**929**	730
Finance income	**1,939**	1,866
Interest expenses on bank borrowings	**(2,306)**	(2,434)
Finance costs – net	**(367)**	(568)

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current income tax		
– Hong Kong profits tax	**3,558**	2,994
– Income tax outside Hong Kong	**690**	1,715
Deferred income tax relating to the origination and reversal of temporary differences	**(130)**	157
	4,118	4,866

8. EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company *(HK$'000)*	**31,571**	41,793
Weighted average number of ordinary shares in issue *('000)*	**282,608**	281,732
Basic earnings per share *(HK cents)*	**11.17**	14.83

(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 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.

	Six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company *(HK$'000)*	**31,571**	41,793
Weighted average number of ordinary shares in issue *('000)*	**282,608**	281,732
Adjustments for share options *('000)*	**215**	2,180
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**282,823**	283,912
Diluted earnings per share *(HK cents)*	**11.16**	14.72

9. DIVIDENDS

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interim dividend, declared, of HK6.0 cents (2017: HK7.0 cents) per ordinary share	**16,961**	19,746

Dividend of HK$22,615,000 (2017: HK$22,567,000) relating to the period to 31 March 2018 was paid on 23 August 2018.

On 27 November 2018, the board of directors has resolved to declare an interim dividend of HK6.0 cents per share (2017: HK7.0 cents per share), which is payable on or before 21 December 2018 to shareholders who are on the Register of Shareholders at 12 December 2018. This interim dividend, amounting to HK$16,961,000 (2017: HK$19,746,000), has not been recognised as a liability in this interim financial information.

10. TRADE AND OTHER RECEIVABLES

The ageing of trade receivables is as follows:

	As at 30 September 2018 HK$'000 (Unaudited)	As at 31 March 2018 HK$'000 (Audited)
0 to 30 days	**285,831**	195,924
31 to 60 days	**5,293**	5,828
61 to 90 days	**1,747**	1,937
91 to 180 days	**1,432**	1,280
Over 180 days	**4,637**	3,795
	298,940	208,764
Less: Provision for impairment	**(3,686)**	(3,748)
Trade receivables, net	**295,254**	205,016
Prepayment to vendors	**11,138**	11,157
Prepayments for plant and equipment	**3,537**	3,074
Other prepayments	**3,343**	3,663
Value added tax receivables	**2,556**	2,631
Rental and other deposits	**2,232**	1,367
Others	**8,880**	9,367
	326,940	236,275
Trade and other receivables		
– Current portion	**323,403**	233,201
– Non-current portion	**3,537**	3,074
	326,940	236,275
Loan receivable		
– Current portion	**912**	2,500
– Non-current portion	**1,625**	–
Loan receivable, net	**2,537**	2,500
Total trade and other receivables	**329,477**	238,775

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

All trade receivables are either repayable within one year or on demand.

The Group generally grants credit terms of 30 days to its customers.

11. TRADE AND OTHER PAYABLES

The ageing of the trade payables is as follows:

	As at 30 September 2018	As at 31 March 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 30 days	**251,540**	183,447
31 to 60 days	**5,986**	4,029
61 to 90 days	**1,387**	788
91 to 180 days	**18,763**	5,285
Over 180 days	**8,750**	6,279
Trade payables	**286,426**	199,828
Salaries and staff welfare payable	**13,357**	13,374
Accrued expenses	**3,780**	4,862
Others	**13,973**	40,029
Total trade and other payable	**317,536**	258,093

12. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Group's condensed consolidated financial information and also discloses the new accounting policies that have been applied from 1 April 2018, where they are different to those applied in prior periods.

HKFRS 9 Financial Instruments

(a) HKFRS 9 Financial Instruments - Impact of adoption

As explained in notes below, HKFRS 9 is generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not restated in the consolidated balance sheet as at 31 March 2018, but are recognised in the opening consolidated balance sheet on 1 April 2018.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 April 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated financial information. The new accounting policies are set out in note 12(b). In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

(i) Classification and measurement

	Available-for-sale financial assets *HK$'000* (Unaudited)	FVOCI *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Closing balance as at 31 March 2018 – HKAS 39	6,242	–	–
Reclassified from available-for-sale financial assets to FVOCI	(6,242)	6,242	–
Opening balance as at 1 April 2018 – HKFRS 9	–	6,242	–

The Group elected to present in the equity changes in the fair value of its shares in the two unlisted equity funds that were previously classified as available-for-sale because management does not plan to dispose of such investments in the foreseeable future. As a result, assets with fair values of HK$6,242,000 were reclassified from available-for-sale financial assets to FVOCI on 1 April 2018. The available-for-sale financial assets reserve of HK$605,000 was also reclassified to FVOCI reserve on 1 April 2018.

There was no impact on retained earnings as at 1 April 2018.

(ii) Impairment of financial assets

The Group has only one type of financial asset, which is subject to HKFRS 9's new expected credit loss model i.e. financial assets carried at amortised cost.

The Group was required to revise its impairment methodology under HKFRS 9 for such class of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is not material.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

For all trade receivables, the Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the invoice dates.

(b) HKFRS 9 Financial Instruments - Summary of significant accounting policies

The following describes the Group's updated financial instruments policy to reflect the adoption of HKFRS 9:

Investments and other financial assets

Classification

From 1 April 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI"). The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

<u>Debt securities</u>

Subsequent measurement of debt securities depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Otherwise, they are measured at fair value with all changes taken through profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "Other (losses)/gains, net", together with foreign exchange differences. Impairment losses are presented as separate line item in the consolidated profit or loss.

<u>Equity securities</u>

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to consolidated profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in the consolidated profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "Other (losses)/gains, net" in the consolidated profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 April 2018, the Group applies the simplified approach permitted by HKFRS 9 to trade receivables, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

HKFRS 15 "Revenue from Contracts with Customers"

(a) HKFRS 15 "Revenue from Contracts with Customers" – Impact of adoption

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) was recognised in retained earnings as at 1 April 2018 and that comparatives was not restated.

The Group is engaged in research and development, manufacturing and sales of electronic products and pet-related products.

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. Because of the large volume and low value of each individual product, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognised. The validity of this assumption and the estimated amount of returns are reassessed at the end of each reporting period.

The Group does not incur costs to fulfil contracts which should be capitalised as they relate directly to the contracts, generate resources used in satisfying the contract and are expected to be recovered.

The Group does not have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. Thus, the Group does not adjust any of the transaction prices for the time value of money.

As a result, other than certain reclassification of contract liabilities, the adoption of HKFRS 15 did not result in any net impact on the profit for the period, as the timing of revenue recognition on sales of products and rental income is not changed.

The following adjustment was made to the amounts recognised in the consolidated balance sheet at the date of initial application (1 April 2018):

	Trade and other payables	Contract liabilities	Total
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Closing balance as at 31 March 2018 – HKAS 18	258,093	–	258,093
Reclassified from other payables to contract liabilities	(27,282)	27,282	–
Opening balance as at 1 April 2018 – HKFRS 15	230,811	27,282	258,093

(b) HKFRS 15 "Revenue from Contracts with Customers" – summary of significant accounting policies

Revenue recognition

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

Sales are recognised when control of the products have transferred, being when the goods are delivered to the customers, the customers have full discretion over the goods and there is no unfulfilled obligation that could affect the customers' acceptance of the goods. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to customers, and either customers have accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts (if any). Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with credit terms that are consistent with market practice. The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Contract liability

Cash or bank acceptance notes collected from certain customers before product delivery is recognised as contract liabilities.

CHAIRMAN'S MESSAGE

During the period under review, the trade war between China and the US continued to intensify and thus has negatively affected the overall business environment. To cope with difficulties that may arise, some of its business partners have adopted prudent strategies. Nevertheless, owing to SUGA's active efforts in exploring new opportunities in the past and spurred by the beginning of service to a new client during the period, turnover managed to maintain growth. Turnover increased by 16.8% against the last corresponding period to HK$863.0 million (1H2017/18: HK$738.9 million). Gross profit amounted to HK$116.9 million (1H2017/18: HK$116.8 million). Gross profit margin was 13.5% (1H2017/18: 15.8%). The decrease in gross profit margin was mainly attributable to the new customer's product which carries a higher value but a lower gross profit margin when compared to the Group's other products. Profit attributable to shareholders was HK$31.6 million (1H2017/18: HK$41.8 million). Net profit margin was 3.6% (1H2017/18: 5.6%). Basic earnings per share were HK11.17 cents (1H2017/18: HK14.83 cents).

BUSINESS REVIEW

We have started designating the pet business as an independent business segment in the last financial year in order to more clearly reflect the development direction of the Group and show the performance of its two businesses. Thanks to the Group's constant pursuit of diversification and active efforts in developing innovative products, SUGA has managed to achieve steady business development.

Electronic Products

The electronic products business has generated stable revenue for the Group. During the period, sales amounted to HK$727.0 million (1H2017/18: HK$593.2 million), representing a year-on-year increase of 22.6% and accounting for 84.2% of total sales.

Among all of our products, professional audio equipment performed relatively well. Revenue from telephones for the hearing impaired was similar to that of the last corresponding period. Affected adversely by the market environment, the performance of other products such as smart card and NFC products as well as communications products from Japanese clients has declined.

In recent years, SUGA has allocated resources to incorporate the Internet of Things ("IoT") technology in different products. This initiative not only has gained the recognition of its current business partners, but has also served to attract new clients. During the period under review, the Group has developed an asset tracker with IoT technology for a new economy client from the US and the new product has contributed revenue. Although the product carries a gross profit margin lower than the Group's average gross profit margin, we believe that it can enrich SUGA's IoT technology product series and lay a foundation for the Group to secure a wider range of customers in the future. The management will strike a balance between seeking potential opportunities and maintaining gross profit margin at a reasonable level.

Pet Business

The pet business started to be designated as a separate business segment since last financial year. Sales amounted to HK$136.0 million (1H2017/18: HK$145.8 million) during the period, accounting for 15.8% of total sales. The drop of the sales was mainly due to the declining orders of pet training devices as a result of the reduction of inventory by its business partners.

Regarding the pet food business, the Group has continuously increased promotion activities to raise the awareness of its own pet food brand Brabanconne, through active participation in domestic and overseas pet exhibitions and fairs. At the Pet Fair Asia held in Shanghai in August, Brabanconne was well-received by consumers with its pet food formula specially developed for the physical well-being of pets in Asia. Moreover, SUGA has launched a creative pet weight loss program at that exhibition with a strong pre-sale performance. However, as avian influenza cases were reported in Belgium, China temporarily suspended the imported agricultural products from that country. Accordingly, the Group's pet food produced in Belgium has also been affected. Hence, the pet food business recorded a slowdown during the period.

Apart from pet food, the Group has found that pet insurance is another blue ocean. Hence, it has worked with partners to launch a one-stop online pet insurance platform, PetbleCare, in September 2018 in a bid to fill the market gap and to compensate for the shortcomings of similar products. There are only very few pet insurance options presently available in the market and they only cover pet medical insurance. PetbleCare provides a comprehensive protection, including the pets' medical illness, accident, the third party liability and other protection, to pet owners and their pets. The platform can generate synergies with the Group's existing pet business. SUGA has strived to establish a comprehensive pet business ecosystem encompassing both online and offline operations, so it expects that the online pet insurance platform PetbleCare can benefit the pet business ecosystem.

PROSPECTS

Looking ahead to the second half of the year, the overall market is having a strong wait-and-see sentiment. In the shadow of the trade war between China and the US, many of our clients have adopted a more cautious strategy until the macroeconomic environment is clarified. Over the past years, despite the ups and downs in the market, SUGA has been able to steadily advance the Group forward. Despite the challenging prospects, the management will adhere to its prudent approach to lead the Group to achieve further growth.

In August of this year, SUGA announced its plan to establish a plant in Vietnam to ease pressure from the trade war and the escalating costs in mainland China. With an area of 4,134 sq. m., the new plant will be located in the Dai Dong-Hoan Son Industrial Park in Bac Ninh Province, Vietnam. The initial investment in the project is approximately HK$20 million. Two production lines are to commence operation in December this year. The management believes Vietnam is an ideal location for building the new plant and has thus decided to take advantage of that country's preferential tax rates, competitive labor cost, stable labor market and strategic location in order to effectively diversify risks. We will maintain close communications with business partners and adjust the production scale in Vietnam depending on needs.

The outbreak of avian influenza in Belgium has affected the import of SUGA's own brand Brabanconne pet food to China during the period under review. Although the outbreak is past, the Group can only resume imports after the government bodies in China relax relevant restrictions. Despite being only an isolated incident, we have promptly responded and sought another producer in New Zealand as we believe diversifying production sources will help alleviate the negative impact on supply in the event of a similar incident in the future. We expect sales of Brabanconne pet food to improve in the second half after imports resume.

Regarding the land where our former Huizhou plant stood, the application to change its purpose to commercial and residential use is still in progress. We would inform shareholders in due course should there be any new development. We believe there are still opportunities amid the uncertainties in the market and continue to pay attention to potential development projects. Boasting a net cash position with ample capital, we hope to capture available opportunities and create value for shareholders. The management has strong confidence in the Group's long-term business development.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2018, the current assets and current liabilities of the Group were approximately HK$741.5 million (31 March 2018: HK$690.3 million) and approximately HK$382.5 million (31 March 2018: HK$329.3 million) respectively. The liquidity ratio, which is calculated as current assets over current liabilities, was 1.94 times as at 30 September 2018, as compared to that 2.10 times as at 31 March 2018.

The Group generally finances its business operations by internally generated resources and banking facilities provided by its principal bankers in Hong Kong. Banking facilities used by the Group include revolving bank loans, trust receipt loans, overdrafts, leasing and term loans, which are primarily on floating interest rates. As at 30 September 2018, the Group maintained cash and bank balances at approximately HK$114.9 million (31 March 2018: HK$165.1 million), the decrease in cash and bank balances was mainly due to repayment of long-term bank loans and operating cash outflow for expanding both electronics and pet related business. The Group's bank borrowings were HK$46.5 million as at 30 September 2018 (31 March 2018: HK$68.9 million). Gearing ratio, expressed as a percentage of total bank borrowings over total equity, was 6.6% (31 March 2018: 9.4%). The decrease in gearing ratio was mainly due to repayment of long-term bank loans during the year. The Group was able to maintain a net cash balance, which is calculated by total cash and bank balances less total bank borrowings, of HK$68.4 million as at 30 September 2018 (31 March 2018: HK$96.2 million).

The Group's total assets and total liabilities as at 30 September 2018 amounted to approximately HK$1,094.2 million (31 March 2018: HK$1,065.2 million) and HK$385.3 million (31 March 2018: HK$333.6 million) respectively. The debt ratio, which is calculated based on total liabilities over total assets, was approximately 0.35 times as at 30 September 2018, as compared to that of approximately 0.31 times as at 31 March 2018.

The net asset value of the Group decreased from HK$731.6 million as at 31 March 2018 to HK$709.0 million as at 30 September 2018. The decrease is mainly due to comprehensive loss arising from exchange difference on translation of PRC subsidiaries.

FOREIGN EXCHANGE EXPOSURE

The Group is not subject to material foreign currency exposure since its operations are mainly denominated in Renminbi, Hong Kong dollars and United States dollars. The Group considers there is no significant exposure to foreign exchange fluctuations for United States dollars as long as the Hong Kong-United States dollar exchange rate remains pegged.

During the six months ended 30 September 2018, the Group entered into several foreign exchange contracts to manage the currency translation risk of Renminbi against United States dollars. All these foreign exchange contracts were for managing purpose and it is the policy of the Group not to enter into any derivative contracts purely for speculative activities.

PLEDGE OF ASSETS

As at 30 September 2018, the Group pledged its office premise located at 22nd floor, Tower B, Billion Centre, Kowloon Bay together with 4 car parking spaces to secure a bank mortgage loan of HK$5.3 million (31 March 2018: HK$6.7 million) for financing the acquisition of the office premise and car parking spaces. Other than the said mortgage loan, the Group had not pledged any of its assets as securities for the banking facilities granted to the Group.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 September 2018, the Group had no capital commitment for the construction contract and property, plant and equipment (31 March 2018: HK$1.8 million).

Corporate guarantees given to banks to secure the borrowings granted to subsidiaries as at 30 September 2018 amounted to HK$46.5 million (31 March 2018: HK$68.9 million) and the Group did not have any significant contingent liability.

HUMAN RESOURCES

As at 30 September 2018 the Group employed 2,300 employees, of which 86 were based in Hong Kong and Macao while the rest were mainly in Mainland China. 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE PRACTICES

The Company had complied with the code of provisions as set out in the Appendix 14 "Corporate Governance Code" to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Code") throughout the period, except the deviation from the code provision A.2.1. According to the code provision A.2.1 of the Code, 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 announcement, the Company does not have a separate Chairman and Chief Executive Officer and Dr. 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.

COMPLIANCE WITH THE MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Model Code"). Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 30 September 2018.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting policies and practices adopted by the Group and discussed, among other things, the risk management and internal control systems and financial reporting matters, including the review of the unaudited interim financial information for the six months ended 30 September 2018.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK6.0 cents per share for the six months ended 30 September 2018 (2017: HK7.0 cents) payable to shareholders whose names appear on the Register of Shareholders of the Company on 12 December 2018. The interim dividend will be paid on or before 21 December 2018.

CLOSURE OF REGISTER

For the purpose of ascertaining the entitlement of the shareholders to receive the interim dividend, the Register of Shareholders of the Company will be closed on 12 December 2018 during which date no transfer of shares in the Company will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 11 December 2018.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by the Listing Rules will be published on the Stock Exchange's website at (www.hkexnews.hk) and the Company's website at (www.suga.com.hk). The Interim report will be dispatched to the shareholders and will be available on the websites of the Stock Exchange and the Company in due course.

By Order of the Board
NG Chi Ho
Chairman

Hong Kong, 27 November 2018

The Directors of the Company as at the date of this announcement are Dr. Ng Chi Ho, Mr. Ma Fung On and Dr. Ng Man Cheuk as executive directors; Mr. Lee Kam Hung and Prof. Luk Wing Ching as non-executive directors; Mr. Leung Yu Ming, Steven, Mr. Chan Kit Wang and Dr. Cheung Nim Kwan as independent non-executive directors.