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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 2019**

FINANCIAL HIGHLIGHTS

- Revenue amounted to HK\$879.8 million (2018: HK\$863.0 million)
- Gross profit was HK\$118.3 million (2018: HK\$116.9 million)
- Profit attributable to owners of the Company was HK\$27.5 million (2018: HK\$31.6 million)
- Basic earnings per share was HK9.68 cents (2018: HK11.17 cents)
- The Board proposed an interim dividend of HK6.0 cents per share (2018: interim dividend of HK6.0 cents per share)

INTERIM RESULTS

The Board of Directors (the “Board”) of Suga International Holdings Limited (the “Company”) would like to announce the unaudited consolidated results of the Company and its subsidiaries (together “SUGA” or the “Group”) for the six months ended 30 September 2019:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

		Six months ended 30 September	
	Note	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue	3	879,773	863,009
Cost of sales	5	(761,456)	(746,151)
Gross profit		118,317	116,858
Other income		1,693	2,993
Other gains / (losses) – net	4	5,770	(579)
Distribution and selling expenses	5	(29,112)	(26,817)
General and administrative expenses	5	(64,273)	(55,520)
Net impairment losses on financial assets		(296)	–
Operating profit		32,099	36,935
Finance income	6	1,195	1,939
Finance costs	6	(2,694)	(2,306)
Finance costs – net		(1,499)	(367)
Share of losses of associates		–	(1,075)
Profit before income tax		30,600	35,493
Income tax expense	7	(3,267)	(4,118)
Profit for the period		27,333	31,375
Attributable to:			
Owners of the Company		27,452	31,571
Non-controlling interests		(119)	(196)
		27,333	31,375
Earnings per share for profit attributable to owners of the Company during the period			
– Basic (HK cents)	8	9.68	11.17
– Diluted (HK cents)	8	9.68	11.16
Dividends	9	17,009	16,961

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

	Six months ended	
	30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period	27,333	31,375
Other comprehensive loss:		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign subsidiaries	(4,086)	(33,151)
<i>Item that will not be reclassified subsequently to profit or loss:</i>		
Fair value losses on equity investment at fair value through other comprehensive income	(904)	(195)
Other comprehensive loss for the period	(4,990)	(33,346)
Total comprehensive income / (loss) for the period	22,343	(1,971)
Total comprehensive income / (loss) attributable to:		
Owners of the Company	22,462	(1,775)
Non-controlling interests	(119)	(196)
	22,343	(1,971)

INTERIM CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AS AT 30 SEPTEMBER 2019

		30 September 2019	31 March 2019
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		226,638	261,580
Land use rights		–	48,849
Right-of-use assets		74,446	–
Intangible assets		2,050	2,681
Goodwill		3,949	3,949
Interests in associates		2,592	–
Interests in a joint venture		990	–
Financial assets at fair value through other comprehensive income		6,006	6,910
Financial assets at fair value through profit or loss		25,576	25,576
Loans receivable		1,063	1,063
Deferred income tax assets		2,294	2,330
Non-current prepayments and other receivables	10	13,533	13,374
		359,137	366,312
Current assets			
Inventories		252,553	288,622
Trade and other receivables	10	333,302	252,052
Financial assets at fair value through profit or loss		244	1,531
Loans receivable		845	1,125
Amounts due from associates		7,529	5,085
Amount due from a joint venture		56,101	–
Pledged bank deposits		–	115
Cash and cash equivalents		150,384	127,826
		800,958	676,356
Total assets		1,160,095	1,042,668
LIABILITIES			
Non-current liabilities			
Lease liabilities		3,537	–
Deferred income tax liabilities		1,195	357
		4,732	357

		30 September 2019	31 March 2019
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Current liabilities			
Trade and other payables	11	322,136	240,310
Income tax payable		9,513	7,814
Lease liabilities		4,427	—
Bank borrowings		89,181	69,537
		425,257	317,661
Total liabilities		429,989	318,018
EQUITY			
Equity attributable to owners of the Company			
Share capital		28,349	28,349
Other reserves		93,256	100,174
Retained earnings		607,601	595,108
		729,206	723,631
Non-controlling interests		900	1,019
Total equity		730,106	724,650
Total equity and liabilities		1,160,095	1,042,668

1. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 September 2019 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. This condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 March 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

Net impairment losses on financial assets are separately disclosed in the condensed consolidated interim income statement for the six months ended 30 September 2019. Comparative information has been amended to align to the current year presentation.

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 March 2019 as described in those annual consolidated financial statements, except for the adoption of new and amended standards as set out below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

- (a) New and amended standards and interpretation adopted by the Group.

The following new standard, amendments to existing standards and interpretation are mandatory for the first time for the financial year beginning 1 April 2019 and currently relevant to the Group:

Amendments to annual improvements project	Annual improvements 2015-2017 cycle
Amendments to HKAS 9	Prepayment features with negative compensation
Amendments to HKAS 19	Plan amendment, curtailment or settlement
Amendments to HKAS 28	Long-term interests in associates and joint ventures
HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over income tax treatments

The Group changed its accounting policies and made certain adjustments following the adoption of HKFRS 16 “Leases” (“HKFRS 16”) as disclosed in Note 12. All other amendments to existing standards and interpretation listed above did not have a significant effect on the Group’s accounting policies.

(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 2019 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKFRS 3 (Revised)	Definition of a business	1 January 2020
Conceptual framework for financial reporting 2018	Revised conceptual framework for financial reporting	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021
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 condensed consolidated interim financial information of the Group.

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 distribution of pet-related products

The segment information provided to the CODM for the reportable segments for six months ended 30 September 2019 and 2018 is as follows:

	Six months ended 30 September 2019			
	Electronic products	Pet-related products	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
Revenue from external customers	740,302	139,471	–	879,773
Inter-segment revenue	91,215	51,236	(142,541)	–
	831,517	190,797	(142,541)	879,773
Segment results	36,864	9,910		46,774

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

Segment results	46,774
Unallocated expenses, net	(22,138)
Other income	1,693
Other gains, net	5,770
Operating profit	32,099
Finance income	1,195
Finance costs	(2,694)
Profit before income tax	30,600
Income tax expense	(3,267)
Profit for the period	27,333

	Six months ended 30 September 2019			
	Electronic products	Pet-related products	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Other segment information				
Depreciation of property, plant and equipment	15,214	427	388	16,029
Depreciation of right-of use assets	1,525	174	472	2,171
Amortisation of intangible assets	–	–	631	631
Additions to non-current assets (other than interests in associates and a joint venture, financial assets and deferred tax assets)	20,937	1,912	3,277	26,126

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

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 losses, net	<u>(579)</u>
Operating profit	36,935
Finance income	1,939
Finance costs	(2,306)
Share of losses of associates	<u>(1,075)</u>
Profit before income tax	35,493
Income tax expense	<u>(4,118)</u>
Profit for the period	<u>31,375</u>

	Six months ended 30 September 2018			
	Electronic products <i>HK\$ '000</i> (Unaudited)	Pet-related products <i>HK\$ '000</i> (Unaudited)	Unallocated <i>HK\$ '000</i> (Unaudited)	Total <i>HK\$ '000</i> (Unaudited)
Other segment information				
Depreciation of property, plant and equipment	15,748	184	1,012	16,944
Amortisation of intangible assets	–	–	643	643
Amortisation of land use rights	537	–	27	564
Additions to non-current assets (other than interests in associates, financial assets and deferred tax assets)	<u>7,591</u>	<u>120</u>	<u>791</u>	<u>8,502</u>

The segment assets and segment liabilities as at 30 September 2019 and 31 March 2019 and the reconciliation to the total assets and total liabilities are as follows:

	As at 30 September 2019		
	Electronic products HK\$'000 (Unaudited)	Pet-related products HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment assets	870,862	59,523	930,385
Unallocated:			
Property, plant and equipment			26,668
Right-of-use assets			23,091
Interests in associates			2,592
Interest in a joint venture			990
Deferred income tax assets			2,294
Amounts due from associates			7,529
Amount due from a joint venture			56,101
Loans receivable			1,908
Other investments			31,826
Cash and cash equivalents			57,778
Other unallocated assets			18,933
			<hr/>
Total assets per consolidated balance sheet			1,160,095
			<hr/> <hr/>
Segment liabilities	240,550	1,730	242,280
Unallocated:			
Bank borrowings			89,181
Lease liabilities			3,604
Deferred income tax liabilities			1,195
Trade payables			69,081
Income tax payable			9,513
Other unallocated liabilities			15,135
			<hr/>
Total liabilities per consolidated balance sheet			429,989
			<hr/> <hr/>

	As at 31 March 2019		
	Electronic products <i>HK\$ '000</i> (Audited)	Pet-related products <i>HK\$ '000</i> (Audited)	Total <i>HK\$ '000</i> (Audited)
Segment assets	825,290	57,562	882,852
Unallocated:			
Property, plant and equipment			48,273
Deferred income tax assets			2,330
Amounts due from associates			5,085
Loans receivable			2,188
Other investments			34,017
Cash and cash equivalents			53,316
Other unallocated assets			14,607
			<hr/>
Total assets per consolidated balance sheet			1,042,668
			<hr/> <hr/>
Segment liabilities	181,855	2,161	184,016
Unallocated:			
Bank borrowings			69,537
Deferred income tax liabilities			357
Trade payables			44,267
Income tax payable			7,814
Other unallocated liabilities			12,027
			<hr/>
Total liabilities per consolidated balance sheet			318,018
			<hr/> <hr/>

An analysis of the Group's revenue from external customers by country or region of destination for the period ended 30 September 2019 and 2018 is as follows:

	Six months ended 30 September	
	2019	2018
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
	(Unaudited)	(Unaudited)
The United States of America	435,920	409,713
Japan	91,306	104,492
France	69,194	32,924
People's Republic of China (the "PRC", including Hong Kong)	66,108	78,851
Taiwan	63,703	82,651
Australia	56,369	44,721
United Kingdom	43,023	37,462
Germany	31,613	38,300
Others	22,537	33,895
	<hr/>	<hr/>
	879,773	863,009
	<hr/> <hr/>	<hr/> <hr/>

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

	As at 30 September 2019 HK\$'000 (Unaudited)	As at 31 March 2019 HK\$'000 (Audited)
Hong Kong	85,385	80,318
Mainland China	266,757	283,663
Others	4,701	1
	356,843	363,982

For the six months ended 30 September 2019, external revenue of approximately HK\$223,056,000 (2018: HK\$122,698,000) was generated from two (2018: one) major customers, who accounted for more than 10% (2018: 10%) of the Group's revenue. No other customers individually accounted for more than 10% of the Group's revenue for the six months ended 30 September 2018.

4. OTHER GAINS / (LOSSES) – NET

	Six months ended 30 September 2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Net fair value loss on financial assets at fair value through profit or loss	–	(562)
Impairment loss of financial assets at fair value through other comprehensive income	–	(502)
Gain on disposal of a land use right	3,828	–
Net foreign currency exchange gain	1,942	485
	5,770	(579)

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 2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Cost of inventories	654,761	654,669
Depreciation of property, plants and equipment	16,029	16,944
Depreciation of right-of-use assets	2,171	–
Amortisation of land use rights	–	564
Amortisation of intangible assets	631	643
Employee benefit expense (including directors' emoluments)	127,246	103,627
Other expenses	54,003	52,041
	854,841	828,488

6. FINANCE INCOME AND FINANCE COSTS

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income from:		
– bank deposits	175	1,010
– overdue interests received from customers	537	929
– others	483	–
	<u>1,195</u>	<u>1,939</u>
Finance income		
Interest expenses on bank borrowings	(2,546)	(2,306)
Unwinding of interests on lease liabilities	(148)	–
	<u>(2,694)</u>	<u>(2,306)</u>
Finance costs		
Finance costs – net	<u>(1,499)</u>	<u>(367)</u>

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current income tax		
– Hong Kong profits tax	2,425	3,558
– Income tax outside Hong Kong	–	690
Deferred income tax relating to the origination and reversal of temporary differences	842	(130)
	<u>3,267</u>	<u>4,118</u>

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	
	2019	2018
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (HK\$'000)	<u>27,452</u>	<u>31,571</u>
Weighted average number of ordinary shares in issue ('000)	<u>283,490</u>	<u>282,608</u>
Basic earnings per share (HK cents)	<u>9.68</u>	<u>11.17</u>

(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	
	2019 (Unaudited)	2018 (Unaudited)
Profit attributable to owners of the Company (<i>HK\$ '000</i>)	27,452	31,571
Weighted average number of ordinary shares in issue (<i>'000</i>)	283,490	282,608
Adjustments for share options (<i>'000</i>)	–	215
Weighted average number of ordinary shares for diluted earnings per share (<i>'000</i>)	283,490	282,823
Diluted earnings per share (<i>HK cents</i>)	9.68	11.16

9. DIVIDENDS

	Six months ended 30 September	
	2019 HK\$ '000 (Unaudited)	2018 HK\$ '000 (Unaudited)
Interim dividend, declared, of HK6.0 cents (2018: HK6.0 cents) per ordinary share	17,009	16,961

Dividend of HK\$ 17,009,000 (2018: HK\$22,615,000) relating to the period to 31 March 2019 was paid on 23 August 2019.

On 27 November 2019, the board of directors resolved to declare an interim dividend of HK6.0 cents per share (2018: HK6.0 cents per share), which is payable on or before 20 December 2019 to shareholders whose names appear on the Company's register of shareholders on 12 December 2019. This interim dividend, amounting to HK\$17,009,000 (2018: HK\$16,961,000), has not been recognised as a liability in this condensed consolidated interim financial information.

10. TRADE AND OTHER RECEIVABLES

As at 30 September 2019 and 31 March 2019, the ageing analysis of net trade receivables based on invoice date was as follows:

	As at 30 September 2019 HK\$'000 (Unaudited)	As at 31 March 2019 HK\$'000 (Audited)
0 to 30 days	255,527	202,186
31 to 60 days	11,486	11,498
61 to 90 days	2,149	900
91 to 180 days	568	2,451
Over 180 days	4,597	5,704
	<hr/>	<hr/>
	274,327	222,739
Less: Loss allowance	(6,704)	(7,618)
	<hr/>	<hr/>
Trade receivables, net	267,623	215,121
Prepayment to vendors	51,841	21,080
Prepayments for plant and equipment	10,784	10,170
Other prepayments	4,350	3,653
Value added tax receivables	3,405	3,658
Rental and other deposits	2,476	2,181
Income tax recoverable	146	147
Other receivables	6,210	9,416
	<hr/>	<hr/>
	346,835	265,426
Less: Non-current prepayments and other receivables	(13,533)	(13,374)
	<hr/>	<hr/>
Current portion of trade and other receivables	333,302	252,052
	<hr/> <hr/>	<hr/> <hr/>

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

As at 30 September 2019 and 31 March 2019, the ageing analysis of trade payables based on invoice date was as follows:

	As at 30 September 2019 HK\$ '000 (Unaudited)	As at 31 March 2019 HK\$ '000 (Audited)
0 to 30 days	113,395	166,436
31 to 60 days	52,382	3,176
61 to 90 days	36,138	2,354
91 to 180 days	27,681	2,113
Over 180 days	5,978	5,460
	<hr/>	<hr/>
Trade payables	235,574	179,539
Salaries and staff welfare payable	12,960	14,340
Accrued expenses	5,203	4,876
Contract liabilities	56,862	27,622
Others	11,537	13,933
	<hr/>	<hr/>
Total trade and other payable	322,136	240,310
	<hr/> <hr/>	<hr/> <hr/>

12. CHANGES IN ACCOUNTING POLICIES

The following explains the impact of the adoption of HKFRS 16 on the Group's financial information.

The Group elected to adopt HKFRS 16 without restating comparatives as permitted under specific transitional provisions in the standard. The reclassifications and the adjustments are therefore not reflected in the consolidated balance sheet as at 31 March 2019, but are recognised in the opening balance sheet on 1 April 2019.

(a) Adjustments recognised on the adoption of HKFRS 16

On the adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 5.96%.

	2019 HK\$ '000
Operating lease commitments disclosed as at 31 March 2019	9,937
Discounted using the lessee's incremental borrowing rate of at the date of initial application	9,607
Less:	
Short-term or low-value leases recognised on a straight-line basis as expense	<hr/> (5,526)
Lease liabilities recognised as at 1 April 2019	<hr/> <hr/> 4,081
Of which are:	
- Current lease liabilities	1,816
- Non-current lease liabilities	<hr/> 2,259
	<hr/> <hr/> 4,075

The associated right-of-use assets were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Upon the adoption of HKFRS16, land use rights previously presented as a separate item on the consolidated balance sheet is grouped as part of right-of-use assets with effect from 1 April 2019. The Group also reclassified leasehold land from operating leases from property, plant and equipment to right-of-use assets for presentation purpose.

The recognised right-of-use assets relate to the following types of assets:

	As at 30 September 2019 <i>HK\$'000</i>	As at 1 April 2019 <i>HK\$'000</i>
Buildings	7,857	4,030
Leasehold land	20,416	20,771
Land use rights	46,173	48,849
	<u>74,446</u>	<u>73,650</u>

Changes in accounting policies affected the following items in the consolidated balance sheet on 1 April 2019:

Consolidated balance sheet (extract)	31 March 2019 As originally presented <i>HK\$'000</i>	Effects of the adoption of HKFRS 16 <i>HK\$'000</i>	1 April 2019 Restated <i>HK\$'000</i>
Non-current assets			
Land use rights	48,849	(48,849)	-
Property, plant and equipment	261,580	(20,771)	240,809
Right-of-use assets	-	73,650	73,650
Current liabilities			
Lease liabilities	-	1,816	1,816
Non-current liabilities			
Lease liabilities	-	2,259	2,259
Equity			
Retained earnings	595,108	(45)	595,063

(i) Impact on segment disclosures

Adjusted segment assets and segment liabilities as at 30 September 2019 all increased as a result of the changes in accounting policies. Lease liabilities are now included in segment liabilities. The following segments were affected by the changes in the accounting policies:

	Segment assets <i>HK\$'000</i> (Unaudited)	Segment liabilities <i>HK\$'000</i> (Unaudited)
Electronic products	3,062	3,037
Others – Corporate assets	4,795	4,826

(ii) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following recognition exemptions and practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;
- the exemption of operating leases for which the underlying assets are of low value;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) -4 “Determining whether an Arrangement contains a Lease”.

(b) The Group’s leasing activities as a lessee and how these are accounted for

The Group leases various offices, dormitories, factory premises and warehouses. Rental contracts are typically made for fixed periods of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 31 March 2019, leases of property were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable (if any);
- variable lease payment that are based on an index or a rate;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received (if any);
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

CHAIRMAN'S MESSAGE

During the period under review, the escalation of the Sino-US trade war added uncertainties to the business environment. However, owing to the Group's balanced and diverse product mix and the establishment of its factory in Vietnam, which SUGA planned last year, the Group managed to cope with the challenges through flexibility, thus maintaining a growth in turnover during the period.

Turnover increased by 1.94% against the last corresponding period to HK\$879.8 million (1H2018/19: HK\$863.0 million). Gross profit rose by 1.2% to HK\$118.3 million (1H2018/19: HK\$116.9 million). Gross profit margin was 13.4% (1H2018/19: 13.5%). The steady gross profit margin during the period was mainly attributable to the cost effectiveness achieved due to the Group's active effort in integrating the production lines of Suga High-tech Industrial Park in Dongguan, the PRC and its Vietnam factory. Profit attributable to shareholders was HK\$27.5 million (1H2018/19: HK\$31.6 million). Net profit margin was 3.1% (1H2018/19: 3.6%). Excluding the one-off expenses incurred in the construction of its factory in Vietnam and the establishment of the Suga Research Laboratory for Sustainable Urban Green Agriculture at The Hong Kong Polytechnic University ("PolyU"), the Group's net profit margin would have increased as compared to the corresponding period last year. Basic earnings per share were HK9.68 cents (1H2018/19: HK11.17 cents).

BUSINESS REVIEW

Thanks to our constant pursuit of diversification and active efforts in developing innovative products, we have managed to achieve steady development in both the electronics and pet businesses.

Electronic Products

The electronic products business has continuously generated stable revenue for us. During the period, sales amounted to HK\$740.3 million (1H2018/19: HK\$727.0 million), representing a year-on-year increase of 1.8% and accounting for 84.1% of total sales. The growth momentum was mainly derived from the Group's new products, including an asset tracker with Internet of Things ("IoT") technology application for Mobilogix, Inc. ("Mobilogix"), a new economy client from the US. Mobilogix is not only a new customer, but also one of the Group's investment projects. SUGA has actively engaged in investing in startups during recent years, with special attention to the projects with development potential and synergies with existing businesses. The cooperation with Mobilogix is a successful example of this strategy. The Group entered into an agreement with Mobilogix last May and has invested approximately US\$2.0 million (equivalent to approximately HK\$15.6 million) in the convertible promissory notes of Mobilogix. In October of this year, it executed the conversion right and the warrant for subscription of shares of Mobilogix, and entered into a shareholder agreement, which as a result, the Group currently holds approximately 22% of the entire enlarged issued and outstanding shares of Mobilogix's common stock. IoT technology has been one of SUGA's major development focuses in the past few years. As Mobilogix focuses on developing the IoT business, the agreement has strengthened the business relationship between SUGA and Mobilogix. We expect that both parties can complement each other with their respective strengths and generate greater synergies.

As for other electronic products, the segment performance of professional audio equipment and telephones for the hearing impaired was similar to that of last year. Smart card and near-field communication (NFC) products recorded more notable growth. Meanwhile the business of communications products from Japanese clients has declined due to the challenging market environment. The commencement of operations at our Vietnam factory in the first half of the year has helped the Group to respond to the effects of the Sino-US trade war, and therefore we maintained a relatively stable development during the period. In addition, we have received enquiries about the production of orders at our Vietnam factory from some new customers and this has been further reflected in the competitive advantage of our Vietnam factory.

The pet business recorded sales of HK\$139.5 million during the period (1H2018/2019: HK\$136.0 million), representing a slight increase of 2.6% year-on-year, and occupied 15.9% of total sales. The increase was mainly attributable to the moderate increase of orders for electronic pet products.

In recent years, the Group has strived to develop the pet food business, but an avian influenza outbreak in Belgium last year affected the import of SUGA's own brand Brabanconne pet food into China. We have maintained close communications with the China government during the period. Currently, Brabanconne has obtained the import approval. A new consignment of pet food from Belgium is expected to arrive at the end of this year, thus the Group can resume its supply to the market.

We strongly believe that the pet food market of China presents enormous business potential so we will continue to promote our own pet food. In order to stabilise the supply of our products in the future and diversify the risks of supply, we confirmed cooperation with a quality pet food manufacturer in China during the period, and launched a new pet food brand "TEENYTINY" that is manufactured in China and mainly targeted the mid-range market at the Pet Fair Asia held this August. High transparency, strict food specifications and safety measures contributed to its positive reception at the exhibition, and the products will be officially launched nationwide early next year. To boost the confidence of pet owners, we also conduct regular food safety inspection and testing at the laboratory that we have set up at the Food Safety and Technology Research Centre of PolyU, to ensure our pet food is in compliance with human food safety standards covering procedures from raw materials to production.

PROSPECTS

In the past two decades, capitalising on the spirit of innovation and strong capabilities of our management team, SUGA has constantly explored new opportunities including developing new business, actively investing in start-ups and setting up a production base in Vietnam, enabling the Group to overcome different economic cycles and market shifts, ride through the wind and waves, and continue to advance.

Our factory in Vietnam has become a major competitive advantage. To meet the strong demand from the affected US customers, other existing and new customers for Vietnamese production, on top of the existing factory covering more than 4,100 sq. m, we have rented over 6,000 sq. m additional space, thereby expanding the scale. We also plan to increase the production lines from two at present to four to six, which will be highly automated as well. We will maintain close communications with customers, and allocate respective production resources in Dongguan and Vietnam appropriately. We may further expand the capacity when needed. Therefore, we have confidence we can stand with our customers and face the Sino-US trade war, which has become the new normal, as well as other new challenges presented to the global economy such as Brexit.

In addition to production capacity and layout, investment in Mobilogix is also one of the initiatives for exploring new opportunities in these years. SUGA's approximately 22% interest in Mobilogix will be recorded as interests in associates in our financial statements. Mobilogix is a California-based Software-as-a-Service (SaaS) provider and original design manufacturer (ODM) specialising in providing turnkey solutions and engineering solutions for IoT covering connectivity, cloud and IoT data services. It also has a proven track record in the transportation, medical, commercial and industrial sectors. At the Mobile World Congress held in October this year, Mobilogix was specially commended as one of the "Nine Companies to Watch" for its innovative use of IoT technology. The Group's cooperation with Mobilogix enhances the strengths of both companies and has attracted the attention of other customers. Moving forward, we will continue to look for other opportunities which are conducive to SUGA's long-term development.

We have also achieved a breakthrough in new business development. Our “Cordless Hair Straightener” produced for one of leading brands of personal care appliances in the USA, has won the Gold Prize in the Personal Electronics category and is a Winner in the Components category at the Electronic Industries Awards 2019, acknowledging SUGA’s outstanding capability in technological innovation. This is the Group’s high performance cordless hair straightener that combines the patented Micro Heater Matrix Technology with an exceptional cordless performance. In addition to quickly reaching the desired temperature, the product also distributes heat evenly across the heating plate. Cordless Hair Straightener is our first product in our smart personal care business. We are currently in discussion with the customer on applying the patented technology to a wider range of products, hoping to offer a series of innovative and quality smart personal care products.

As for the pet business, SUGA’s own brand Brabanconne pet food produced in Belgium is expected to resume its import into China by the end of this year. Nevertheless, we will continue to explore opportunities to cooperate with a producer in New Zealand in order to mitigate risks to its supply chain. With the Brabanconne brand resuming its import into China and SUGA’s nationwide launch of its new brand “TEENYTINY” early next year, the pet food business is expected to recover and deliver a satisfactory performance in the second half of the year.

In relation to the land in Huizhou, the application to change its purpose to commercial and residential use has been approved. Subsequently, the Company has entered into a cooperation agreement in September 2019 to undertake a development project in collaboration with Guangdong Fuchuan Investment Co., Ltd. (廣東富川投資有限公司), which is experienced in property development in China. We believe the cooperation will enhance the prospects for success of the development project and reduce the risks, and ultimately, generate long-term revenue for the Group. Going forward, we will continue to implement stable development strategies, aiming to lead SUGA to new heights in its business development and create long-term value for customers and shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2019, the current assets and current liabilities of the Group were approximately HK\$801.0 million (31 March 2019: HK\$676.4 million) and approximately HK\$425.3 million (31 March 2019: HK\$ 317.7 million) respectively. The liquidity ratio, which is calculated as current assets over current liabilities, was 1.88 times as at 30 September 2019, as compared to that 2.13 times as at 31 March 2019.

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 2019, the Group maintained cash and bank balances at approximately HK\$150.4 million (31 March 2019: HK\$127.8 million), the increase in cash and bank balances was mainly due to the net effect of advance receipts from customers, net increase in bank borrowings and investment in Vietnam plant. The Group’s bank borrowings were HK\$89.2 million as at 30 September 2019 (31 March 2019: HK\$ 69.5 million). Gearing ratio, expressed as a percentage of total bank borrowings over total equity, was 12.2 % (31 March 2019: 9.6 %). The increase in gearing ratio was mainly due to the net effect of drawdown of short-term bank loan and 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\$61.2 million as at 30 September 2019 (31 March 2019: HK\$58.3 million).

The Group’s total assets and total liabilities as at 30 September 2019 amounted to approximately HK\$1,160.1 million (31 March 2019: HK\$1,042.7 million) and HK\$430.0 million (31 March 2019: HK\$318.0 million) respectively. The debt ratio, which is calculated based on total liabilities over total assets, was approximately 0.37 times as at 30 September 2019, as compared to that of approximately 0.31 times as at 31 March 2019.

The net asset value of the Group increased from HK\$724.7 million as at 31 March 2019 to HK\$730.1 million as at 30 September 2019. The increase is mainly due to the net effect of profit for the period and 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 2019, 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 2019, the Group had 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\$2.4 million (31 March 2019: HK\$ 3.8 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 2019, the Group had capital commitment of HK\$2.8 million for the property, plant and equipment (31 March 2019: HK\$4.1 million).

Corporate guarantees given to banks to secure the borrowings granted to subsidiaries as at 30 September 2019 amounted to HK\$89.2 million (31 March 2019: HK\$69.5 million) and the Group did not have any significant contingent liability.

HUMAN RESOURCES

As at 30 September 2019 the Group employed 2,105 employees, of which 86 were based in Hong Kong and Macao while the rest were mainly in Mainland China and Vietnam. 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 2019.

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 2019.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK6.0 cents per share for the six months ended 30 September 2019 (2018: HK6.0 cents) payable to shareholders whose names appear on the Register of Shareholders of the Company on 12 December 2019. The interim dividend will be paid on or before 20 December 2019.

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 2019 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 Wednesday, 11 December 2019.

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 2019

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.