



INTERIM REPORT 2003

SUGA INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

CORPORATE INFORMATION

Executive Directors

Mr. Ng Chi Ho (*Chairman*)

Mr. Fung Chi Leung, Mark
(*Deputy Chairman*)

Mr. Wong Wai Lik, Lamson

Mr. Ma Fung On

Non-executive Director

Mr. Shaw Kyle Arnold Junior

Independent Non-executive Directors

Professor Wong Sook Leung, Joshua

Mr. Murase Hiroshi

Company Secretary

Ms. Chan Kwan Hei, Anthea

Audit Committee

Professor Wong Sook Leung, Joshua

Mr. Murase Hiroshi

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Hamilton HM 11

Bermuda

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Kowloon

Hong Kong

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Butterfield Fund Services (Bermuda)
Limited

Rosebank Centre

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Bermuda

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Services Limited

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Legal Advisers

Deacons

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Auditors

PricewaterhouseCoopers

Certified Public Accountants

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Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited

DBS Bank (Hong Kong) Limited

UFJ Bank Limited

Industrial and Commercial Bank of China
(Asia) Limited

Bank of America (Asia) Ltd.

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The Board of Directors (the “Directors”) of Suga International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2003.

FINANCIAL HIGHLIGHTS

- Group turnover rose 7.2% to HK\$245.3 million
- Net profit amounted to HK\$17.1 million
- Interim dividend of HK2.5 cents per share
- Basic earnings per share was HK8.0 cents

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend for the six months ended 30 September 2003 of HK2.5 cents (2002: HK2.5 cents) per ordinary share to shareholders whose names appear on the register of members of the Company on 31 December 2003. The interim dividend will be paid on or before 9 January 2004.

CLOSURE OF REGISTER

The register of members of the Company will be closed from 29 December 2003 to 31 December 2003, both days inclusive, during which period no transfer of shares will be registered. All transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company’s Registrar in Computershare Hong Kong Investor Services Limited, Shops 1712-16, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 24 December 2003.

BUSINESS AND MARKET HIGHLIGHTS

The Group was able to further expand and improve the business in the first half of fiscal 2004 even though the overall economy was hampered by the outbreak of the SARS and the Iraqi war. Total sales increased 7.2% to HK\$245.3 million from the corresponding period last year which are mainly due to the increase in sales of networking products in the PRC. Gross profit increased by 6% to HK\$40.2 million with a gross margin of 16.4%, which is up from the 15.1% in the second half of 2003 and similar to the corresponding period last year of 16.6%. Improvement in profits came as a result of the Group's continuous drive to minimize manufacturing costs and maximize efficiency. Profit attributable to shareholders was HK\$17.1 million, which is on par with that of the last year before including the one-off gain on disposal of subsidiary in last year's figure. The net profit margin was maintained at 7%, up from 5.4% in the second half of fiscal 2003.

Telecommunication Products

Sales of telecommunication products recorded a substantial 36% increase to HK\$131 million, thus making it the major source of revenue for the Group in the first half of the year. The increase was mainly driven by strong orders of networking products from Harbour Networks, a strategic customer of the Group. After less than 2 years of operations, manufacturing of networking products has become one of the major revenue contributors of the Group. Although orders on networking products slowed down during the SARS period from April to June, orders quickly resumed around August enabling the Group to record a satisfactory 42% increase in sales over the same period last year. Both our stringent quality controls and strong and proactive engineering support have forged our business relationship with Harbour Networks and enabled us to strengthen our reputation and secure new customers in the industry. Also during the period, we commenced trial production for a number of new network equipment, further broadening our customers and increasing our income streams in networking business.

Consumer Electronics Appliances

Sales of consumer electronics appliances amounted to HK\$103 million, slightly down from HK\$115 million last year. The change was mainly due to the decline in orders of handheld TV from a Japanese customer due to the popularity of portable digital audio/video ("A/V") products in the market, which had been anticipated by the management. Sales of pet training devices for the period were maintained at last year's level. The growth momentum of pet training devices was slowed during the period as the development and production of new models was adversely affected and delayed by the attack of SARS. Business activities, including face-to-face communications and engineering visits, were suspended during the SARS period and only started up again in August. Management expects a backlog of orders plus the rollout of new models will boost sales of consumer electronic appliances in second half of the year.

Office Automation Products

Sales of office automation products recorded a decline of 29% as a result of the Group's strategic shift of resources to the new product line of advanced digital A/V products, which the management expects will generate higher margins and growth in turnover.

Proactive steps to enter the Advanced Digital A/V Markets

Over the years, our R&D team has been on an unrelenting quest to create innovative and advanced products. During the period, we have been developing a series of advanced digital A/V products, the first of which is the pioneering portable MPEG-4 player. This new product, combining the functions of MPEG-4 video players/recorders, MP3 music players/recorders and digital voice recorders, received the "HKEIA Award for Outstanding Innovation and Technology Products" 2003 bronze award. It is a state-of-art handheld video recorder and player that makes use of the new MPEG-4 video compression technology standards that boast high quality at a low bit rate. The product was launched at the Hong Kong Electronics Fair in October 2003, and we have received positive responses from overseas customers with first shipments expected in February/March 2004. Newer and more innovative digital A/V products will be introduced in next fiscal year. The Group believes that this new business line will become another important revenue and profit contributor of the Group in the future.

PROSPECTS

Customer orders quickly resumed from August 2003 as SARS faded, a large current order backlog now on hand. Management believes there will be a substantial sales and profit growth in the second half of the year.

Networking products will continue to be the key driving force for the Group's future profit growth, with customer orders sharply increasing and creating a 70% growth in the current order book over the same period last year. To cope with this strong demand, the Group will expand production capacity in the second half by adding assemblies lines, new Surface-Mount-Technology ("SMT") machine, and inspection equipment. With our technologically advanced production facilities in Xixiang, Shenzhen, the PRC, which are located in the immediate neighbourhood of Harbour Networks, we will be able to further the business relationship and record steady sales growth from networking devices.

Pet training devices are another major driving force. Accumulated orders and planned rollout of new models will boost the sales in second half of the year. American spending on pets has nearly doubled this year, despite the sluggish economy. According to American Pet Products Manufacturers Association ("APPMA"), Americans now own more pets than ever before, and, in fact, in the U.S. there are now more pets than people. Additionally, our partner has a strategic planning to penetrate into the Asian-Pacific market, especially the booming China market which has plenty of room for growth. It is expected an even better performance will be achieved in the next fiscal year.

Following the launch of the Group's first digital A/V product in October 2003, the management will continue developing a variety of new digital A/V products. Sales of digital A/V products will start in the next fiscal year. The management believes that this business line will diversify the customer and product base for the Group.

At the same time, the Group will commence to establish its distribution network in the PRC and will work closely with strategic suppliers to enhance the Group's overall R&D capability and product quality. The management will also seek profitable investment opportunities to broaden the Group's business horizons and vertically integrate operations.

Looking forward, we will continue to create additional electronic products and services to meet customer demand and increase resources to enhance the Group's research and development and production capabilities. We are confident that our proactive solutions with integrated design, manufacturing, logistic, and marketing services will strongly position the Group to provide both existing and future customers with cost-effective and technologically advanced electronic products.

SHARE PLACEMENT

To broaden the shareholder base and enhance stock market liquidity, the Group successfully issued 20,000,000 new shares to independent institutional investors at HK\$1.40 per share in June 2003, raising net proceeds of HK\$27 million.

ACQUISITION OF THE REMAINING INTERESTS IN SUGA NETWORKS

In view of the growing market demand for networking products in the PRC, the Group in September 2003 entered into a sale and purchase agreement to acquire the remaining 15% shareholding interest in Suga Networks Hong Kong Limited ("Suga Networks"), which manufactures networking products in the PRC, subject to the satisfaction of certain conditions. The acquisition was completed on 17 November 2003 for a consideration of HK\$4.5 million settled by the issue of 1,800,000 new shares of the Company at a price of HK\$2.50 per share. Suga Networks has since completion become a wholly owned subsidiary allowing the Group to fully capture the profit contributed by networking business.

LIQUIDITY AND FINANCIAL RESOURCES

The financial position of the Group remained healthy. As at 30 September 2003, the Group's cash and bank balances and net current assets were HK\$58 million and HK\$153 million respectively. The current ratio improved from 1.78 times to 2.12 times due to the placement of new shares in June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Total bank borrowings, comprising bank loans, trust receipt loans and finance lease obligations, increased from HK\$55.9 million to HK\$83.6 million while net borrowings maintained at HK\$25.4 million which was comparable to the level as at 31 March 2003. The increase in bank borrowings was mainly due to a long-term loan of HK\$20 million raised for the expansion of networking business.

The Group's gearing ratio, based on net borrowings to equity, as at 30 September 2003 was 14.5%, decreased from 18.3% as at 31 March 2003. Working capital increased during the period as trade receivables and inventory levels increased which in turn was a result of the substantial increase in sales commencing from August 2003 after SARS faded and backlog of orders at the end of September 2003.

The Group currently has aggregate banking facilities of HK\$167 million from several banks.

FOREIGN EXCHANGE EXPOSURE

Most of the Group's business transactions are denominated in either Hong Kong dollars, US dollars or Renminbi. As such, the Group had no significant exposure to foreign exchange fluctuations.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 September 2003, the Group has an outstanding commitment of approximately HK\$4.5 million in respect of the acquisition of the remaining 15% shareholding interests in Suga Networks. Corporate guarantees given to banks to secure the borrowings granted to subsidiaries as at the balance sheet date amounted to HK\$84 million and the Group did not have any other contingent liabilities.

EMPLOYEES

As at 30 September 2003, the Group had approximately 1,600 full time employees whose remuneration are based on individual qualification, performance and years of experience.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its shares during the six months ended 30 September 2003. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company's shares during the period under review.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the unaudited interim accounts for the six months ended 30 September 2003.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the period, except that the two independent non-executive directors have not been appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's Bye-laws.

APPRECIATION

On behalf of the board of directors, I would like to take this opportunity to express my gratitude to our shareholders, customers, banks, vendors and employees for their continuous co-operation and support.

By Order of the Board

Ng Chi Ho

Chairman

Hong Kong, 11 December 2003

DIRECTORS' INTERESTS IN SHARES

As at 30 September 2003, the interests and short positions of the Directors and the Company's chief executive in the Shares, underlying shares and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Future Ordinance ("SFO") (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transaction by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

(i) Interests in shares

Name of Director	Number of ordinary share of HK\$0.1 each						
	Personal interests	Corporate interests	Family interest	Trust/ similar interest	Persons acting in concert	Other interest	Total interests
Ng Chi Ho	2,000,000	28,100,000 <i>(Note 1)</i>	-	100,000,000 <i>(Note 2)</i>	-	-	130,100,000
Fung Chi Leung, Mark	-	3,000,000 <i>(Note 3)</i>	-	-	-	-	3,000,000
Ma Fung On	730,000	9,000,000 <i>(Note 4)</i>	-	-	-	-	9,730,000
Prof. Wong Sook Leung, Joshua	100,000	-	-	-	-	-	100,000

Notes:

- 28,100,000 shares are held by Billion Linkage Limited, the entire issued share capital of which is held by Mr. Ng and his spouse in equal share.
- 100,000,000 shares are held by Superior View Inc., the entire issued share capital of which is ultimately held by Fidelitycorp Limited as the trustee of the C.H. Family Trust, the beneficiaries of which are the family members of Mr. Ng Chi Ho.
- 3,000,000 shares are held by Able Asset Developments Limited, the entire issued share capital of which is held by Mr. Fung Chi Leung, Mark.
- 9,000,000 shares are held by Global Class Enterprises Limited, the entire issued share capital of which is held by Mr. Ma Fung On.

None of the above Directors has any interest of short positions in the shares or underlying shares of the Company.

(ii) Interests in share options

Share options granted to directors under the share option scheme adopted by the Company on 17 September 2002 and remain outstanding as at 30 September 2003:

Directors	Date of grant	Exercisable period	Exercise price per share (HK\$)	Number of shares				End of period
				Beginning of period	Granted during the period	Exercised during the period	Lapsed during the period	
Mr. Ng Chi Ho	5 May 2003	5 May 2003 to 4 May 2008	1.23	-	2,000,000	2,000,000	-	-
Mr. Fung Chi Leung, Mark	5 May 2003	5 May 2003 to 4 May 2008	1.23	-	1,800,000	-	-	1,800,000
Mr. Ma Fung On	5 May 2003	5 May 2003 to 4 May 2008	1.23	-	1,800,000	730,000	-	1,070,000
Mr. Wong Wai Lik, Lamson	5 May 2003	5 May 2003 to 4 May 2008	1.23	-	1,800,000	-	-	1,800,000

(iii) Interests in associated company

As at 30 September 2003, each of Mr. Ng Chi Ho, Mr. Fung Chi Leung, Mark and Mr. Ma Fung On held the following non-voting deferred shares of HK\$1 each in Suga Electronics Limited, a wholly-owned subsidiary of the Company:

Name of shareholder	Number of non-voting deferred shares
Essential Mix Enterprises Limited (<i>Note</i>)	3,200,000
Broadway Business Limited (<i>Note</i>)	800,000

Note: The entire issued share capital of each of Essential Mix Enterprises Limited and Broadway Business Limited is held as to 92% by Mr. Ng Chi Ho, 6% by Mr. Ma Fung On and 2% by Mr. Fung Chi Leung, Mark. These non-voting deferred shares have no voting rights, are not entitled to dividends, and are not entitled to any distributions upon winding up unless a sum of HK\$10,000,000,000 per ordinary share has been distributed to the holders of ordinary shares.

SHARE OPTION SCHEME

The Company has a share option scheme (“Share Option Scheme”) which was adopted on 17 September 2002. The following table disclosed details of the options outstanding under the Share Option Scheme and movements during the period:

	Date of grant	Exercisable period	Exercise price per share (HK\$)	Number of shares				End of period
				Beginning of period	Granted during the period	Exercised during the period	Lapsed during the period	
Directors	5 May 2003	5 May 2003 to 4 May 2008	1.23	-	7,400,000	2,730,000	-	4,670,000
Employees	5 May 2003	5 May 2003 to 4 May 2008	1.23	-	4,900,000	600,000	-	4,300,000
				-	12,300,000	3,330,000	-	8,970,000

Details of the Share Option Scheme are as disclosed in the Company’s 2002/2003 Annual Report.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, according to the register of substantial shareholders required to be maintained under the SFO, the following entities (not being a director or chief executive of the Company or his/her respective associate(s)) had an interest or short position of 5% or more of the shares or underlying shares of the Company:

	Number of Shares	Percentage
Superior View Inc. (Note 1)	100,000,000	44.77%
Billion Linkage Limited (Note 2)	28,100,000	12.58%
Shaw, Kwei & Partners (Asia) Ltd	11,500,000	5.14%

Notes:

- The entire issued share capital of Superior View Inc. is ultimately held by Fidelitycorp Limited as trustee of the C.H. Family Trust, the beneficiaries of which are the family members of Mr. Ng Chi Ho.
- The entire issued share capital of Billion Linkage Limited is held by Mr. Ng Chi Ho and his spouse in equal share and Mr. Ng Chi Ho is deemed to be interested in all the shares held by Billion Linkage Limited under the SFO.

	Note	Six months ended 30 September	
		2003 HK\$'000 (unaudited)	2002 HK\$'000 (restated) (unaudited)
Turnover	2	245,292	228,799
Cost of sales		<u>(205,120)</u>	<u>(190,798)</u>
Gross profit		40,172	38,001
Interest income		155	118
Research and development costs		(608)	(303)
Distribution and selling expenses		(4,673)	(3,069)
General and administrative expenses		(14,177)	(12,927)
Amortisation of negative goodwill		304	304
Gain on disposal of interest in a subsidiary		–	9,076
Operating profit	3	<u>21,173</u>	<u>31,200</u>
Finance costs	4	<u>(873)</u>	<u>(912)</u>
Profit before taxation		20,300	30,288
Taxation	5	<u>(2,154)</u>	<u>(4,201)</u>
Profit after taxation		18,146	26,087
Minority Interests		<u>(1,063)</u>	<u>–</u>
Profit attributable to shareholders		<u>17,083</u>	<u>26,087</u>
Interim dividend		<u>5,583</u>	<u>5,000</u>
Earnings per share			
– Basic	6	8.0 cents	16.9 cents
– Diluted	6	<u>7.9 cents</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 September 2003 <i>HK\$'000</i> (unaudited)	As at 31 March 2003 <i>HK\$'000</i> (restated) (audited)
	<i>Note</i>		
NON-CURRENT ASSETS			
Property, machinery and equipment	7	66,179	62,755
Negative Goodwill		(10,686)	(10,990)
Other investments		3,510	3,510
		<u>59,003</u>	<u>55,275</u>
CURRENT ASSETS			
Inventories		83,916	66,040
Prepayments, deposits and other assets		10,859	6,824
Trade receivables	8	137,162	101,794
Other investments		–	780
Other cash and bank deposits		58,189	31,603
		<u>290,126</u>	<u>207,041</u>
CURRENT LIABILITIES			
Short-term bank borrowings		(42,024)	(41,215)
Current portion of long-term bank loan		(8,334)	(3,334)
Trade payables	9	(66,675)	(54,673)
Accruals and other payables		(6,185)	(5,081)
Obligations under finance leases, current portion		(2,904)	(2,841)
Taxation payable		(10,958)	(9,023)
		<u>(137,080)</u>	<u>(116,167)</u>
Net current assets		<u>153,046</u>	<u>90,874</u>
Total assets less current liabilities		<u>212,049</u>	<u>146,149</u>

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

		As at 30 September 2003	As at 31 March 2003
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(restated) (audited)
Financed by:			
SHARE CAPITAL	<i>11</i>	22,333	20,000
OTHER RESERVES		60,769	31,667
RETAINED PROFIT		87,166	75,666
PROPOSED DIVIDEND		5,583	5,500
		<hr/>	<hr/>
Shareholders' equity		175,851	132,833
		<hr/>	<hr/>
MINORITY INTEREST		1,503	440
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Long-term bank loan		25,277	1,943
Deferred taxation		4,346	4,392
Obligations under finance leases, non-current portion		5,072	6,541
		<hr/>	<hr/>
		34,695	12,876
		<hr/>	<hr/>
		212,049	146,149
		<hr/>	<hr/>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 September	
	2003	2002
	HK\$'000	HK\$'000
		(restated)
	(unaudited)	(unaudited)
Net cash outflow from operating activities	(19,773)	(967)
Net cash outflow from investing activities	(6,440)	(41,363)
Net cash inflow from financing activities	56,224	63,975
	<hr/>	<hr/>
Increase in other cash and bank deposits	30,011	21,645
Cash and cash equivalents, beginning of period	28,178	15,598
	<hr/>	<hr/>
Cash and cash equivalents, end of period	58,189	37,243
	<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Six months ended 30 September 2003						
	Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Exchange Reserves <i>HK\$'000</i>	Capital Reserves <i>HK\$'000</i>	Retained Earnings <i>HK\$'000</i>	Proposed Dividends <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2003, as previously reported	20,000	18,648	2,428	10,591	76,400	5,500	133,567
Effect of change in accounting policy	—	—	—	—	(734)	—	(734)
As at 1 April 2003, as restated	20,000	18,648	2,428	10,591	75,666	5,500	132,833
Issue of shares through placing	2,000	—	—	—	—	—	2,000
Exercise of share option	333	—	—	—	—	—	333
Premium on issue of ordinary shares	—	29,763	—	—	—	—	29,763
Share issuance expenses	—	(661)	—	—	—	—	(661)
Profit for the period	—	—	—	—	17,083	—	17,083
Dividends paid	—	—	—	—	—	(5,500)	(5,500)
Proposed interim dividend	—	—	—	—	(5,583)	5,583	—
As at 30 September 2003	<u>22,333</u>	<u>47,750</u>	<u>2,428</u>	<u>10,591</u>	<u>87,166</u>	<u>5,583</u>	<u>175,851</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Restated and unaudited						
	Six months ended 30 September 2002						
	Share Capital <i>HK\$ '000</i>	Share Premium <i>HK\$ '000</i>	Exchange Reserves <i>HK\$ '000</i>	Capital Reserves <i>HK\$ '000</i>	Retained Earnings <i>HK\$ '000</i>	Proposed Dividends <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
As at 1 April 2002	4,000	–	–	7,646	46,533	30,000	88,179
Issue of shares through public offer and placing	5,000	–	–	–	–	–	5,000
Premium on issue of ordinary shares	–	45,000	–	–	–	–	45,000
Share issuance expenses	–	(12,328)	–	–	–	–	(12,328)
Capitalisation of share premium	14,800	(14,800)	–	–	–	–	–
Effect of reorganization	(3,800)	–	–	2,945	855	–	–
Goodwill reversed upon disposal of a subsidiary	–	–	–	–	491	–	491
Profit for the period	–	–	–	–	26,087	–	26,087
Dividends paid	–	–	–	–	–	(30,000)	(30,000)
Proposed interim dividend	–	–	–	–	(5,000)	5,000	–
As at 30 September 2002	<u>20,000</u>	<u>17,872</u>	<u>–</u>	<u>10,591</u>	<u>68,966</u>	<u>5,000</u>	<u>122,429</u>

1. Principal accounting policies

The unaudited condensed accounts have been prepared in accordance with the Statements of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and the disclosure requirements of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

These condensed accounts should be read in conjunction with the annual accounts of the Group for the year ended 31 March 2003. The accounting policies and method of computation used in the preparation of the condensed accounts are consistent with those used in the annual accounts for the year ended 31 March 2003 except that effective 1 April 2003 the Group adopted SSAP 12 (revised), “Income taxes”, issued by the HKSA.

Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on fixed assets and tax losses carried forward. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The adoption of the SSAP 12 (revised) represents a change in accounting policy which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. In this connection, the retained earnings at 1 April 2003 have been reduced by HK\$734,000 which represented the cumulative effect on prior years’ profits on unprovided net deferred tax liabilities. In addition, negative goodwill on acquisition of a subsidiary has been reduced by HK\$3,658,000; while deferred tax liabilities was increased by HK\$4,392,000 as at 31 March 2003. The profit for the six months ended 30 September 2002 has been reduced by HK\$747,000 while there was no significant effect for the six months ended 30 September 2003.

2. Segment Information

Business Segments

The Group has categorized its business segment by products types into consumer electronics appliances, telecommunication products, office automation products and others.

	Six months ended 30 September 2003 (Unaudited)				Total
	Consumer electronics appliances	Telecommunication products	Office automation products	Others	
Turnover	<u>102,618</u>	<u>131,286</u>	<u>9,738</u>	<u>1,650</u>	<u>245,292</u>
OPERATING RESULTS					
Operating profit	<u>13,142</u>	<u>6,628</u>	<u>1,102</u>	<u>146</u>	<u>21,018</u>
Interest income					155
Interest expense					(873)
Taxation					(2,154)
Minority interests					<u>(1,063)</u>
Profit attributable to shareholders					<u>17,083</u>
	Six months ended 30 September 2002 (Unaudited)				
	Consumer electronics appliances	Telecommunication products	Office automation products	Others	Total
Turnover	<u>115,404</u>	<u>96,526</u>	<u>13,707</u>	<u>3,162</u>	<u>228,799</u>
OPERATING RESULTS					
Operating profit	<u>14,912</u>	<u>4,728</u>	<u>2,145</u>	<u>221</u>	<u>22,006</u>
Gain on disposal of interest in a subsidiary					9,076
Interest income					118
Interest expense					(912)
Taxation					<u>(4,201)</u>
Profit attributable to shareholders					<u>26,087</u>

Geographical segments

	Six months ended 30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Turnover		
– The United States of America	71,039	74,077
– The People's Republic of China	125,007	89,526
– Asia-Pacific region (excluding PRC)	48,859	63,409
– Europe	387	1,787
	245,292	228,799

Contribution to operating profit by geographical segments has not been presented as they were generally in line with the distribution of turnover as set out above.

3. Operating profit

The Group's operating profit is arrived at after charging/(crediting) the following:

	Six months ended 30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Staff costs, including director's emoluments	16,283	15,470
Operating lease rentals of premises	745	1,123
Depreciation of property, machinery and equipment		
– owned assets	2,200	1,450
– assets held under finance leases	1,486	1,195
Auditors' remuneration	319	192
Amortisation of negative goodwill	(304)	(304)
Gain on disposal of interest in a subsidiary	–	(9,076)

4. Finance costs

	Six months ended 30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on bank borrowings		
– Bank overdrafts and other loans	673	686
– Finance leases	200	226
	873	912

5. **Taxation**

	Six months ended	
	30 September	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current taxation		
– Hong Kong profits tax	1,601	1,850
– PRC enterprise income tax	600	1,700
	2,201	3,550
Deferred taxation	(47)	651
	2,154	4,201

Hong Kong profits tax was provided at a rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. Pursuant to relevant laws and regulations in the PRC, Suga Networks Equipment (Shenzhen) Co., Ltd is exempted from paying income tax for the first two years starting from its first profitable year of operation, followed by a 50% reduction for the next three years. Provision for income tax for the other PRC subsidiary was provided at a rate of 15% (2002: 15%) on the estimated assessable income.

6. **Earnings per share**

The calculation of basic earnings per share for the six months ended 30 September 2003 is based on the profit attributable to shareholders of HK\$17,083,000 (2002: HK\$26,087,000 (restated)) and the weighted average number of 213,839,000 (2002: 154,098,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 September 2003 is based on the profit attributable to shareholders of HK\$17,083,000 and the weighted average number of 215,475,000 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares. No potential dilutive ordinary shares had existed for the six months ended 30 September 2002.

7. **Property, machinery and equipment**

Movements of property, machinery and equipment for the six months ended 30 September 2003 is as follows:

	<i>HK'000</i>
	(unaudited)
Net book value at 1 April 2003	62,755
Additions	7,110
Depreciation	(3,686)
Net book value at 30 September 2003	<u>66,179</u>

8. Trade receivables

The Group granted credit terms to its customers ranging from 30 to 90 days. The ageing analysis of trade receivables is as follows:

	As at 30 September 2003 HK\$'000 (Unaudited)	As at 31 March 2003 HK\$'000 (Audited)
0 to 30 days	115,497	92,777
31 to 60 days	17,418	5,973
61 to 90 days	3,453	2,445
91 to 180 days	1,173	1,138
Over 180 days	<u>621</u>	<u>461</u>
	138,162	102,794
<i>Less: Provision for bad and doubtful debts</i>	<u>(1,000)</u>	<u>(1,000)</u>
	<u>137,162</u>	<u>101,794</u>

9. Trade payables

Ageing analysis of trade payables is as follows:

	As at 30 September 2003 HK\$'000 (Unaudited)	As at 31 March 2003 HK\$'000 (Audited)
0 to 30 days	51,819	43,865
31 to 60 days	6,259	3,393
61 to 90 days	4,438	3,499
91 to 180 days	2,114	2,034
Over 180 days	<u>2,045</u>	<u>1,882</u>
	66,675	54,673

NOTES TO THE CONDENSED ACCOUNTS

10. Bank borrowings

	As at 30 September 2003 HK\$'000 (Unaudited)	As at 31 March 2003 HK\$'000 (Audited)
Trust receipts bank loans	42,024	41,215
Obligations under finance leases	7,976	9,382
Other bank loans	33,611	5,277
	<u>83,611</u>	<u>55,874</u>
The maturity of the above loans is as follows:-		
Within one year	53,262	47,390
In the second year	8,309	4,910
In the third to fifth years	22,040	3,574
	<u>83,611</u>	<u>55,874</u>

11. Share Capital

	Number of shares '000	Nominal value HK\$'000
Authorised (ordinary shares of HK\$0.1 each) As at 30 September 2002 and 2003	<u>2,000,000</u>	<u>200,000</u>
Issued and fully paid		
At 1 April 2003	200,000	20,000
Issue of shares arising from private placement (a)	20,000	2,000
Exercise of share options (b)	3,330	333
As at 30 September 2003	<u>223,330</u>	<u>22,333</u>

- a. Pursuant to the placing and subscription agreement dated 2 June 2003, Billion Linkage Limited, a substantial shareholder of the Company, placed 20,000,000 existing shares of HK\$0.1 each in the capital of the Company at HK\$1.4 per share to independent institutional investors and upon the placement, the Company issued 20,000,000 new shares to Billion Linkage Limited at HK\$1.4 per share on 12 June 2003.
- b. On 5 May 2003, pursuant to the Share Option Scheme, the Company has granted 12,300,000 share options to four executive directors and certain employees of the Company and its subsidiaries. Up to 30 September 2003, 3,330,000 share options were exercised by certain executive directors and employees.