



SUGA INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)



Interim Report **2004**

Systematic Management

*Understanding of
Customers' requirements*

Good Quality

Advanced Technology

A stylized globe is centered in the lower half of the page, overlaid with a network of glowing blue and red lines that represent global connectivity or data flow. The text is arranged in a vertical list on the right side of the globe, with each item preceded by a small white dot and a red arrow pointing towards the globe.

CORPORATE INFORMATION

Executive Directors

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

Non-executive Director

Mr. Kyle Arnold Shaw, Jr.

Independent Non-executive Directors

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

Company Secretary

Ms. Chan Kwan Hei, Anthea

Audit Committee

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

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Legal Adviser

Mallesons Stephen Jaques

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited
UFJ Bank Limited
KBC Bank
Industrial and Commercial Bank of China (Asia) Limited
Bank of America (Asia) Ltd.
Mizuho Corporate Bank, Ltd.
Wing Hang Bank, Ltd.

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

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

Bermuda Principal Share Registrar

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

Hong Kong Branch Share Registrar and Transfer Office

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

Public Relations Consultant

Strategic Financial Relations Limited

Contacts

Telephone: (852) 2953 0383
Facsimile: (852) 2953 1523
Website: www.suga.com.hk
Stock code: 912

CONTENTS

	<i>Page</i>
Chairman's Statement	2
Management Discussion and Analysis	6
Other Information	8
Condensed Consolidated Income Statement	14
Condensed Consolidated Balance Sheet	15
Condensed Consolidated Cash Flow Statement	17
Condensed Consolidated Statement of Changes in Equity	18
Notes to the Condensed Accounts	19

CHAIRMAN'S STATEMENT

For the first half of financial year 2005, Suga's research and development in creating innovative and advanced products began bearing fruit. These new products have expanded Suga's presence in the digital audio-visual ("A/V") business, in line with our strategy to extend and balance our product portfolio.

During the period under review, Suga's turnover increased by 19% to reach HK\$292 million. Gross profit increased by 6.6% to HK\$43 million with a gross profit margin of 14.7%. Profit attributable to shareholders was HK\$16.7 million, leveling that recorded in the first half of last year, for a net profit margin of 5.7%. The net profit margin dropped from 7% in the previous year's first half was due to increased expenditures in research and development as well as sales and marketing. These increased expenditures, however, should position Suga to continue launching innovative and value-added products contributing to future growth in profits.

INTERIM DIVIDEND

The Board of Directors has declared an interim dividend of HK3.0 cents per share, totaling HK\$6,778,000 (2003: HK\$5,583,000) for the six months ended 30 September 2004 to shareholders whose names appear on the register of members of the Company on 30 December 2004. The dividend will be paid on or before 6 January 2005. This dividend represents approximately 41% of the first half net income for the fiscal year, which is consistent with Suga's dividend payout policy.

BUSINESS OVERVIEW

Telecommunication

Turnover for the telecommunications business segment was up 13% to HK\$148 million in the first half, accounting for 51% of Suga's total sales. The increase was driven by growth in orders from our customer, Beijing Harbour Networks Co. Limited, and new orders for voice-over-internet-protocol ("VoIP") phone to NEC of Japan. Due to the Chinese government's macroeconomic measures, the sales growth from Harbour was lowered than anticipated. However, orders from NEC have continued to meet our expectations since our first shipment of key telephone systems and VoIP phones in July 2004. As VoIP phone calls gain popularity worldwide and the benefits of replacing traditional phone sets become more compelling, we expect sales to continue growing well into the future.

CHAIRMAN'S STATEMENT

Consumer Electronics Appliances

Sales of the consumer electronics appliances business segment grew 23% to HK\$127 million, accounting for 43% of Suga's total revenue. The pet training devices business maintained a steadily organic growth and a satisfactory gross margin. In addition, lead-free manufacturing processes for the consumer electronics business already have been implemented in our factories to comply with relevant environmental standards. Suga's strict adherence to environmental safety codes enhances our competitiveness and demonstrates our commitment to best manufacturing practices. The financial return on this investment is expected to be reflected in the continuous growth of future sales.

Digital A/V

The digital business experienced rapid growth with turnover amounting to HK\$8.6 million. The first shipment of Suga's portable MPEG-4 player began in July 2004, ramping up to large volume shipment of the latest version in November 2004. In addition to producing as an ODM for other private labels, these digital A/V products also are sold under Suga's own brand – Nachus – in the Asian market. With our distribution and marketing strategy in both the ODM and own-brand markets, we are confident in developing a high quality, cost efficient product resulting in the maximum profit for Suga and our customers.

ACQUISITION

The Group entered into a Sale and Purchase Agreement in September 2004 to acquire Precise Computer Tooling Company Limited – a company based in Huizhou, Guangdong, specializing in the production of moulds and plastic components, for HK\$8,500,000 to enhance our compositeness through vertical integration of our manufacturing processes. This acquisition enables us to secure a stable supply of plastic parts used in our production plus improves our control of production cost and product quality, thus improving Suga's overall profitability and operational efficiency.

SYNDICATED LOAN AND REVOLVING CREDIT FACILITY

Suga signed a three-year HK\$120 million syndicated loan and revolving credit facility in September 2004 with DBS Bank Limited as the arranger. The purpose of the facility is to finance the capital expenditure requirements and the working capital requirements of Suga and lower Suga's cost of funding future growth.

CHAIRMAN'S STATEMENT

LOOKING AHEAD

Suga is committed to being a leading value-added EMS (“electronic manufacturing services”) provider. In order to meet the ongoing market and customer needs, we are continually investing in R&D and logistics planning to enhance our technical skills and manufacturing efficiencies. With the solid foundation built over the years, our business is expected to continue growing with our customers.

For the telecommunication business, we are shipping more orders of VoIP phones for NEC as well as orders from a new European customer for Video phone handsets, both are expected to grow gradually.

As for the consumer electronics appliances business, we are continuously developing new pet training devices for our US partner, including certain high-priced deluxe models. In addition, we are studying the possibility of joining with our US partner to expand their Asian market share in pet training devices.

We are also continuing to develop digital A/V products, such as our newly introduced mini hard drive MP3 combining multiple features: digital photo album, voice recorder, FM tuner and 5GB storage, an extra-slim and ultra-light color LCD display portable device. Its all-in-one feature has won highly positive feedback from potential customers and shipments are expected to begin in the second half of this financial year. In addition, we have won an order for next-generation video surveillance solutions from an US customer who designs high definition video security products. We had trial production of a multi-view, high definition camera product for this customer during the first half of the fiscal year, and shipments in quantity already started in the second half of this fiscal year. Since this is a very precise and complicated product with applications in a variety of industries, we are confident such business will be boosting profits and enhancing our reputation for product innovation and manufacturing excellence.

Going forward, we will continue to apply our R&D expertise to develop innovative new products to expand our product portfolio in both ODM and own branded businesses. Nachus, the brand that we started operating less than a year ago, is building a reputation in digital Audio-Visual products with stylish designs at competitive prices, and is rapidly penetrating the Hong Kong market. Suga's sales and marketing team will launch advertising campaigns and broaden the sales and distribution channels to extend our market reach, and we are planning to introduce the brand to the PRC market next financial year.

CHAIRMAN'S STATEMENT

In summary, we will continue focusing on utilizing our R&D expertise, expanding both our market and client base, practicing diligent cost control, and striving to increase operational efficiencies. With such focus as well as our position in the rapidly growing Greater China, we are optimistic of bringing positive returns to our shareholders.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Leung Yu Ming, Steven has accepted the appointment of Independent Non-executive Director of the Company effective from 27 September 2004. Mr. Leung is a certified practising public accountant of CPA Australia and a fellow of the Association of Chartered Certified Accountants in UK, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong respectively. Mr. Leung is also a practising certified public accountant in Hong Kong.

APPRECIATION

On behalf of the Board of Directors, I would like to thank our shareholders, customers, suppliers, bankers, as well as our staff and management for their continuous support.

By Order of the Board

Ng Chi Ho
Chairman

Hong Kong, 9th December 2004

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 September 2004, the Group achieved a turnover of approximately HK\$292 million, representing an increase of 19% over the corresponding period last year. The increase in the turnover was mainly due to the increase in orders for telecommunication and consumer electronics appliances and also the inception of digital A/V products.

The Group's gross profit during the period increased by 6.6% to approximately HK\$43 million. Gross profit margin was approximately 14.7% compared to approximately 16.4% for the corresponding period last year. The decrease was mainly attributed to the rise in material cost and inception of new digital distribution business which has a comparable lower margin at the initial promotion stage.

Research and development costs increased from HK\$0.6 million to HK\$1.4 million, representing approximately 0.5% of total sales, which should position Suga to continue launching innovative and value-added products. The selling and administrative expenses were higher by 21% when compared to the same period last year mainly due to increase in sales workforce and marketing and promotion expenses in the Group's new digital A/V business line. The Group's finance cost was approximately HK\$1.7 million compared to HK\$0.9 million last year. The increase was mainly attributed to the increase in bank borrowings during the period under review.

The Group's profit attributable to shareholders was approximately HK\$16.7 million compared to approximately HK\$17.1 million for the corresponding period last year. Net profit margin was 5.7%, edge down from 7.0% in the previous year's first half which was mainly due to the increased expenditures in research and development as well as the sales and marketing.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2004, the Group's cash and bank balances and net current assets were HK\$51 million and HK\$174 million respectively. The current ratio and quick ratio remain healthy at 1.96 and 1.40 times respectively.

Net borrowings increased to HK\$85 million compared to HK\$35 million at 31 March 2004. Our gearing ratio, defined as net borrowings to shareholders' equity, was 41% at balance sheet date. As a result, the interest expenses for the interim period have increased from HK\$0.9 million to approximately HK\$1.7 million.

MANAGEMENT DISCUSSION AND ANALYSIS

On 24 September 2004, the Group signed a three-year HK\$120 million syndicated loan and revolving credit facility with a syndicate of seven local and international banks. The loan will be used to refinance the Group's existing indebtedness, the new capital expenditure and working capital requirement of the Group. Other than the syndicated loan, the Group had aggregate banking facilities of approximately HK\$260 million from several banks of overdrafts, loans and trade financing at the balance sheet date. The Group did not pledge any of its assets as securities for banking facilities granted to the Group except for certain inventories held under trust receipts bank loans arrangements.

FOREIGN EXCHANGE EXPOSURE

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars, US dollars or Chinese Renminbi. The usual treasury policy of the Group is to manage significant currency exposure and minimize currency risk whenever it may have material impact to the Group.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 September 2004, the Group had an outstanding capital commitment of approximately HK\$8.5 million in respect of the acquisition of the entire interests in Precise Computer Tooling Company Limited. Corporate guarantees given to banks to secure the borrowings granted to subsidiaries as at the balance sheet date amounted to HK\$162 million and the Group did not have any other contingent liabilities.

EMPLOYEES

As at 30 September 2004, the Group had approximately 1,600 employees whose remuneration are based on individual qualification, performance and years of experience. In addition to salaries and other usual benefits like annual leave, medical insurance and provident fund, the Group also provides educational sponsorship subsidies, discretionary performance bonus and share options.

OTHER INFORMATION

INTERIM DIVIDEND

The Board of Directors has declared an interim dividend for the six months ended 30 September 2004 of HK3.0 cents per share (2003: HK2.5 cents) to shareholders whose names appear on the register of members of the Company on 30 December 2004. The dividend will be payable on or before 6 January 2005.

CLOSURE OF REGISTER

The register of members of the Company will be closed from 29 December 2004 to 30 December 2004, 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 28 December 2004.

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 2004. 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 comprises independent non-executive directors, Professor Wong Sook Leung, Joshua, Mr. Murase Hiroshi and Mr. Leung Yu Ming, Steven. The 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 review of the unaudited interim report for the six months ended 30 September 2004.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2004, in compliance with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (the "Listing Rules").

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES

As at 30 September 2004, 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 its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the 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 Transactions 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\$0.10 each						Total interests
	Personal interests	Corporate interests	Family interest	Trust/ similar interest	Persons acting in concert	Other interest	
Mr. Ng Chi Ho	2,000,000	28,100,000 <i>(Note 1)</i>	100,000,000 <i>(Note 2)</i>	-	-	-	130,100,000
Mr. Ma Fung On	730,000	9,000,000 <i>(Note 3)</i>	-	-	-	-	9,730,000
Mr. Fung Chi Leung, Mark <i>(Note 5)</i>	-	3,000,000 <i>(Note 4)</i>	-	-	-	-	3,000,000
Mr. Wong Wai Lik, Lamson	500,000	-	-	-	-	-	500,000
Prof. Wong Sook Leung, Joshua	40,000	-	-	-	-	-	40,000

Notes:

- 28,100,000 shares are held by Billion Linkage Limited, the entire issued shares of which are held by Mr. Ng and his spouse in equal share.
- 100,000,000 shares are held by Superior View Inc., the entire issued shares of which is ultimately held by Fidelitycorp Limited as the trustee of the C.H. Family Trust, the beneficiaries of which are the family members of Mr. Ng Chi Ho.
- 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.
- 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.
- Mr. Fung Chi Leung, Mark resigned as the director of the Company effective from 1 November 2004.

OTHER INFORMATION

(ii) Interests in share options

Share options were granted to Directors under the share option scheme adopted on 17 September 2002. Details of the Directors' interest in share options granted by the Company are set out under the heading "Share Option Scheme" of this report.

(iii) Interests in associated corporation

As at 30 September 2004, each of Mr. Ng Chi Ho, Mr. Ma Fung On and Mr. Fung Chi Leung, Mark held the following non-voting deferred shares of HK\$1 each in Suga Electronics Limited:

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.

OTHER INFORMATION

SHARE OPTION SCHEME

The Company has a share option scheme adopted on 17 September 2002. (“Share Option Scheme”). The purpose of the Share Option Scheme is to enable the Group to grant options to eligible participants as incentives or rewards for their contributions to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participants, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group and will also assist the Group in its recruitment and retention of high caliber professionals, executives and employees who are instrumental to the growth of the Group. The principal terms of the Share Option Scheme are as disclosed in the Company’s 2003/4 Annual Report.

The following table summarized movements of the Share Option Scheme during the period:

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

OTHER INFORMATION

A special general meeting will be held at Units 1904-7, 19/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong on 15 December 2004 at 10:00a.m. to approve an ordinary resolution for refreshing the 10% limit ("Scheme Limit") under the Share Option Scheme on the total number of shares, which may be issued upon the exercise of all options to be granted under all the share option schemes of the Company. Upon the refreshment of the Scheme Limit by shareholders at the forthcoming special general meeting, the Company may grant options entitling holders thereof to subscribe for 22,794,000 shares.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the interests and short positions of the following entity, other than directors and chief executive of the Company, in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO:

	Number of ordinary shares	Shareholding percentage
Superior View Inc. <i>(Note 1)</i>	100,000,000	44.26%
Billion Linkage Limited <i>(Note 2)</i>	28,100,000	12.44%
Shaw, Kwei & Partners (Asia) Ltd	11,500,000	5.09%

Notes:

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

Save as disclosed above, the Company had not been notified of any interests or short positions in the shares or underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO as at 30 September 2004.

OTHER INFORMATION

DISCLOSURE PURSUANT TO RULE 13.13 AND RULE 13.15 OF THE LISTING RULES

As at 30 September 2004, there were 225,940,000 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$1.20 as stated in the Stock Exchange's daily quotation sheets for the trading days from 23 September 2004 to 30 September 2004 (both days inclusive), being the five business days immediately preceding 30 September 2004, the total market capitalization of the Company was approximately HK\$271.1 million as at 30 September 2004.

As at 30 September 2004, trade receivables from Beijing Harbour Networks Limited ("BHNL's Trade Receivables") (which is independent of and not connected with the Directors, chief executives or substantial shareholders of the Company or its subsidiaries, or their respective associates or not otherwise a connected person of the Company within the meaning of the Listing Rules) and/or its subsidiaries and related companies amounted to approximately HK\$107 million. BHNL's Trade Receivables represent approximately 39.5% of the total market capitalization of the Company as at 30 September 2004. The BHNL's Trade Receivables are unsecured, interest-free and with credit terms of 90 days.

DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

On 24 September 2004, Suga Electronics Limited and Suga Networks Hong Kong Limited (as borrowers) and P&S Macao Commercial Offshore Limited and the Company (as guarantors) entered into a facility agreement with a syndicate of banks (the "Facility Agreement") in respect of an unsecured loan facility of up to HK\$120,000,000 (the "Facility"). All Suga Electronics Limited, Suga Networks Hong Kong Limited and P&S Macao Commercial Offshore Limited are wholly owned subsidiaries of the Company. The Facility comprises a HK\$100,000,000 3-year term loan tranche and a HK\$20,000,000 3-year revolving credit facility tranche. The purpose of the Facility is to finance the capital expenditure requirements and the working capital requirements of the Company and/or its subsidiaries.

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

As at 30 September 2004, Mr. Ng, his family members and C.H. Family Trust together beneficially own (directly or indirectly) approximately 57.58% of the issued share capital of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited)	
		Six months ended	
		30 September	
		2004	2003
	Notes	HK\$ '000	HK\$ '000
Turnover	2	291,918	245,292
Cost of sales		<u>(249,088)</u>	<u>(205,120)</u>
Gross profit		42,830	40,172
Interest income		141	155
Research and development costs		(1,365)	(608)
Distribution and selling expenses		(6,989)	(4,673)
General and administrative expenses		<u>(15,537)</u>	<u>(13,873)</u>
Operating profit	3	19,080	21,173
Finance costs	4	<u>(1,667)</u>	<u>(873)</u>
Profit before taxation		17,413	20,300
Taxation	5	<u>(687)</u>	<u>(2,154)</u>
Profit after taxation		16,726	18,146
Minority interests		<u>–</u>	<u>(1,063)</u>
Profit attributable to shareholders		<u>16,726</u>	<u>17,083</u>
Interim dividend	6	<u>6,778</u>	<u>5,583</u>
Earnings per share			
– Basic	7	7.4 cents	8.0 cents
– Diluted	7	<u>7.4 cents</u>	<u>7.9 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 September 2004	As at 31 March 2004
	<i>Note</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	68,147	66,598
Negative goodwill/goodwill		(8,998)	(9,263)
Deferred development cost		1,885	1,333
Unlisted investments		3,810	3,810
Deferred tax assets		1,111	412
		65,955	62,890
CURRENT ASSETS			
Inventories		102,537	95,184
Trade receivables		177,509	195,546
Prepayments, deposits and other receivables	9	22,965	12,090
Cash and bank deposits		51,242	66,150
		354,253	368,970
CURRENT LIABILITIES			
Short-term bank borrowings	11	69,651	41,826
Current portion of long-term bank loan	11	38,569	16,485
Trade payables	10	53,618	115,371
Accruals and other payables		4,867	4,637
Obligation under finance leases, current portion	11	3,032	2,967
Dividend payable		3,057	-
Taxation payable		7,592	7,102
		180,386	188,388
Net current assets		173,867	180,582
Total assets less current liabilities		239,822	243,472

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 September 2004	As at 31 March 2004
	<i>Note</i>	HK\$'000 (unaudited)	<i>HK\$'000</i> <i>(audited)</i>
Financed by:			
Share capital	12	22,594	22,594
Other reserves		64,194	64,194
Retained profit		116,010	106,062
Proposed dividend		6,778	6,778
		<hr/>	<hr/>
Shareholders' funds		209,576	199,628
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Long-term bank loan	11	22,960	35,522
Deferred tax liabilities		5,245	4,749
Obligations under finance leases	11	2,041	3,573
		<hr/>	<hr/>
Total non-current liabilities		30,246	43,844
		<hr/>	<hr/>
		239,822	243,472
		<hr/>	<hr/>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	Six months ended	
	30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash outflow from operating activities	(38,598)	(19,773)
Net cash outflow from investing activities	(6,802)	(6,440)
Net cash inflow from financing activities	<u>24,722</u>	<u>56,224</u>
(Decrease)/increase in other cash and bank deposits	(20,678)	30,011
Cash and cash equivalents, beginning of period	<u>66,150</u>	<u>28,178</u>
Cash and cash equivalents, end of period	<u>45,472</u>	<u>58,189</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	51,242	58,189
Bank overdrafts	<u>(5,770)</u>	<u>—</u>
	<u>45,472</u>	<u>58,189</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

Six months ended 30 September 2004

	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>	Total <i>HK\$'000</i>
As at 1 April 2004	22,594	51,175	2,428	10,591	112,840	199,628
Profit for the period	-	-	-	-	16,726	16,726
Dividends paid	-	-	-	-	(6,778)	(6,778)
As at 30 September 2004	22,594	51,175	2,428	10,591	122,788	209,576

(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>	Total <i>HK\$'000</i>
As at 1 April 2003						
as restated	20,000	18,648	2,428	10,591	81,166	132,833
Issue of shares through private placement	2,000	26,000	-	-	-	28,000
Share issue expenses	-	(661)	-	-	-	(661)
Exercise of share options	333	3,763	-	-	-	4,096
Profit for the period	-	-	-	-	17,083	17,083
Dividends paid	-	-	-	-	(5,500)	(5,500)
As at 30 September 2003	22,333	47,750	2,428	10,591	92,749	175,851

NOTES TO THE CONDENSED ACCOUNTS

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 Institute of Certified Public Accountants (“HKICPA”) 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 2004. 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 2004.

2. Segmental information

Business Segments

The Group has categorised its business segment by product type into consumer electronics appliances, telecommunication products, digital products, office automation products and others.

	(Unaudited)					
	Six months ended 30 September 2004					
	Consumer electronics appliances	Telecomm- unication products	Digital products	Office automation products	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>126,639</u>	<u>147,951</u>	<u>8,564</u>	<u>7,709</u>	<u>1,055</u>	<u>291,918</u>
OPERATING RESULTS						
Operating profit/(loss)	<u>15,466</u>	<u>6,840</u>	<u>(4,204)</u>	<u>752</u>	<u>85</u>	<u>18,939</u>
Interest income						141
Interest expense						(1,667)
Taxation						<u>(687)</u>
Profit attributable to shareholders						<u>16,726</u>

NOTES TO THE CONDENSED ACCOUNTS

(Unaudited)

Six months ended 30 September 2003

	Consumer electronics appliances <i>HK\$ '000</i>	Telecommunication products <i>HK\$ '000</i>	Digital products <i>HK\$ '000</i>	Office automation products <i>HK\$ '000</i>	Others <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
Turnover	<u>102,618</u>	<u>131,286</u>	<u>–</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>–</u>	<u>1,102</u>	<u>146</u>	21,018
Interest income						155
Interest expense						(873)
Taxation						(2,154)
Minority interest						<u>(1,063)</u>
Profit attributable to shareholders						<u>17,083</u>

Geographical segments

(Unaudited)

Six months ended 30 September
2004

	Turnover <i>HK\$ '000</i>	Segment results <i>HK\$ '000</i>	Turnover <i>HK\$ '000</i>	Segment results <i>HK\$ '000</i>
The United States of America	81,651	10,024	71,039	9,541
The People's Republic of China	139,517	8,137	125,007	7,830
Other Asian countries	70,441	768	48,859	3,634
Europe	309	10	387	13
	<u>291,918</u>	<u>18,939</u>	<u>245,292</u>	<u>21,018</u>

NOTES TO THE CONDENSED ACCOUNTS

3. Operating profit

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

	(Unaudited)	
	Six months ended	
	30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs, including director's emoluments	17,077	16,283
Operating lease rentals of premises	1,049	745
Depreciation of property, machinery and equipment		
– owned assets	3,249	2,200
– assets held under finance leases	1,193	1,486
Provision for obsolete and slow-moving inventories	300	–
Amortisation of goodwill	39	–
Amortisation of negative goodwill	(304)	(304)
	<u> </u>	<u> </u>

4. Finance costs

	(Unaudited)	
	Six months ended	
	30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on		
– Bank loans wholly repayable within five years	1,540	673
– Obligations under finance leases	127	200
	<u> </u>	<u> </u>
	<u>1,667</u>	<u>873</u>

NOTES TO THE CONDENSED ACCOUNTS

5. Taxation

	(Unaudited)	
	Six months ended	
	30 September	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation		
– Hong Kong profits tax	851	1,601
– Taxation outside Hong Kong	40	600
	<u>891</u>	<u>2,201</u>
Deferred taxation relating to the origination and reversal of temporary differences	(204)	(47)
	<u>687</u>	<u>2,154</u>

6. Interim dividend

The Board of Directors has declared an interim dividend of HK3.0 cents per share, totaling HK\$6,778,000 (2003: HK\$5,583,000) for the six months ended 30 September 2004.

7. Earnings per share

The calculation of basic earnings per share for the six months ended 30 September 2004 is based on the profit attributable to shareholders of HK\$16,726,000 (2003: HK\$17,083,000) and the weighted average number of 225,940,000 (2003: 213,839,000) shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 September 2004 is based on the profit attributable to shareholders of HK\$16,726,000 (2003: HK\$17,083,000) and the weighted average number of 226,256,000 (2003: 215,475,000) shares which is the weighted average number of shares in issue during the period plus the weighted average of 316,000 (2003: 1,636,000) deemed to be issued at no consideration if all outstanding options had been exercised.

NOTES TO THE CONDENSED ACCOUNTS

8. Property, plant and equipment

Movements of property, plant and equipment for the six months ended 30 September 2004 is as follows:

	(Unaudited) HK\$ '000
Net book value at 1 April 2004	66,598
Additions	6,017
Disposals	(26)
Depreciation	(4,442)
	<hr/>
Net book value at 30 September 2004	<u>68,147</u>

9. Trade receivables

The Group granted credit terms to its customers ranging from 30 to 90 days other than a major customer with whom extended credit terms would be granted on specific cases. The ageing analysis of trade receivables is as follows:

	(Unaudited) As at 30 September 2004 HK\$ '000	(Audited) As at 31 March 2004 HK\$ '000
0 to 30 days	128,281	174,214
31 to 60 days	37,288	12,188
61 to 90 days	11,373	6,625
91 to 180 days	1,019	2,157
Over 180 days	548	1,362
	<hr/>	<hr/>
	178,509	196,546
Less: Provision for bad and doubtful debts	(1,000)	(1,000)
	<hr/>	<hr/>
	<u>177,509</u>	<u>195,546</u>

NOTES TO THE CONDENSED ACCOUNTS

10. Trade payables

	(Unaudited)	(Audited)
	As at	As at
	30 September	31 March
	2004	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	47,165	74,676
31 to 60 days	3,401	21,275
61 to 90 days	1,085	10,848
91 to 180 days	171	6,523
Over 180 days	1,796	2,049
	<u>53,618</u>	<u>115,371</u>

11. Bank borrowings

	(Unaudited)	(Audited)
	As at	As at
	30 September	31 March
	2004	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short term bank borrowings	69,651	41,826
Finance lease obligations	5,073	6,540
Long-term bank loan	61,529	52,007
	<u>136,253</u>	<u>100,373</u>

The maturity of the above bank borrowings is as follows:-

Within one year	111,252	61,500
In the second year	22,207	25,211
In the third year	2,794	13,662
	<u>136,253</u>	<u>100,373</u>

NOTES TO THE CONDENSED ACCOUNTS

12. Share capital

	Authorised Ordinary shares of HK\$0.10 each	
	Number of shares '000	HK\$ '000
As at 1 April and 30 September 2004	2,000,000	200,000
	Issued and fully paid Ordinary shares of HK\$0.10 each	
	Number of shares '000	HK\$ '000
At 1 April and 30 September 2004	225,940	22,594

On 7 May 2004, pursuant to the Share Option Scheme, 6,300,000 share options were granted to certain directors and employees of the Company. These share options are exercisable at HK\$1.23 per share for the period from the date of grant up to 6 May 2009. At 30 September 2004, the details of the outstanding option are as follows:

Date of grant	Period during which options are exercisable	Exercise price (HK\$)	Number of options outstanding
5 May 2003	5 May 2003 to 4 May 2008	1.23	8,110,000
7 May 2004	7 May 2004 to 6 May 2009	1.23	6,300,000

13. Related party transactions

Related party transactions, which were carried out in the normal course of the Group's business during the period are disclosed below:

- i. During the period, Micom Tech Limited ("Micom"), a company incorporated in Hong Kong where Mr. Ng Chi Ho, a director of the Company, held interests and is a director, provided technical consultancy services to the Group. Technical consultancy fee paid/payable by the Group to Micom during the period amounted to approximately HK\$782,800.
- ii. During the period, the Group paid license fee of approximately HK\$69,000 to Micom for the grant of license to use its research and development equipment and facilities.

NOTES TO THE CONDENSED ACCOUNTS

14. Capital commitments

On 27 September 2004, the Group has entered into an agreement to purchase the entire interest in Precise Computer Tooling Company Limited, a company incorporated in Hong Kong, at a consideration of HK\$8,500,000.

15. Subsequent events

On 1 October 2004, the Group entered into a sale and purchase agreement with Micom Tech Limited and its subsidiary, Modern Tech Limited ("Modern Tech") to subscribe for 3,000,000 new ordinary shares ("the Subscription Shares") of Modern Tech at HK\$1.00 each, totaling HK\$3,000,000 for cash. The Subscription Shares represents 29.27% of the total issued share capital of Modern Tech as enlarged by the issuance of the Subscription Shares. The principal activities of Modern Tech are developing, processing, sales and marketing of technology-based educational products and related content-based products.