



## SUGA INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 912

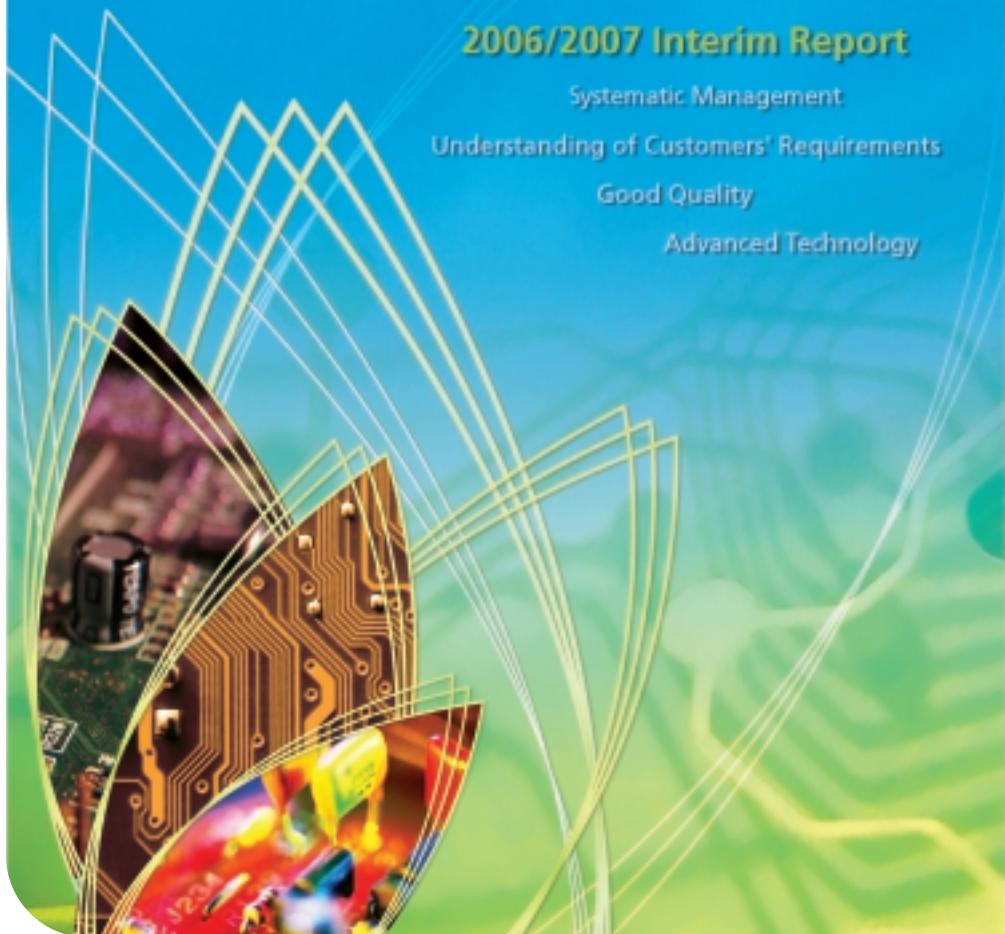
### 2006/2007 Interim Report

Systematic Management

Understanding of Customers' Requirements

Good Quality

Advanced Technology



## Corporate Information

### Board of Directors

#### *Executive*

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

#### *Independent Non-executive*

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

### Company Secretary

Mr. Huen Po Wah

### Audit Committee

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

### Auditors

PricewaterhouseCoopers  
*Certified Public Accountants*

### Legal Advisers

Mallesons Stephen Jaques

### Principal Bankers

The Hongkong and Shanghai Banking  
Corporation Limited  
DBS Bank (Hong Kong) Limited  
Standard Chartered Bank (Hong Kong) Limited  
Hang Seng Bank Limited  
Bangkok Bank Public Company Limited  
The Bank of Tokyo-Mitsubishi UFJ, Limited

### Registered Office

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### Head Office and Principal Place of Business

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

### Bermuda Principal Share Registrar

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

### Hong Kong Branch Share Registrar and Transfer Office

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

### Public Relations Consultant

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

### Contacts

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Stock code: 912

## **Contents**

Chairman's Statement	2
Management Discussion and Analysis	5
Other Information	8
Condensed Consolidated Interim Income Statement	14
Condensed Consolidated Interim Balance Sheet	15
Condensed Consolidated Interim Statement of Changes in Equity	17
Condensed Consolidated Interim Cash Flow Statement	18
Notes to the Condensed Consolidated Interim Financial Information	19

## CHAIRMAN'S STATEMENT

On behalf of the Board, I present the interim results of SUGA International Holdings Limited (the "Company") and its subsidiaries ("SUGA" or the "Group") for the six months ended 30 September 2006. SUGA recorded a turnover of approximately HK\$331.0 million for the period, a 12.9% decrease against the corresponding period last year. The decrease in turnover was mainly due to the significant drop in sales of networking products during the period under review. Though increase in PRC labour cost exerted pressure on the margin of the manufacturing industry at large, SUGA was able to secure higher profit margin businesses and mitigated cost pressure. Gross profit was HK\$42.8 million (2005: HK\$48.6 million), bounced from HK\$37.3 million for the second half of fiscal year 2005/06. Gross profit margin was 12.9% (2005: 12.8%). Profit attributable to shareholders was HK\$4.6 million (2005: HK\$11.5 million). Earnings per share were HK2.0 cents (2005: HK5.1 cents).

### Interim Dividend

The Board has resolved to declare an interim dividend of HK0.5 cent per share (2005: HK1.5 cents) for the six months ended 30 September 2006 to shareholders whose names appear on the register of members of the Company on 4 January 2007. The interim dividend will be paid on or before 12 January 2007. This dividend represents approximately 25% of the first half net profit for the fiscal year, which is consistent with SUGA's dividend payout policy.

### Business Overview

#### Consumer Electronics Appliances

Sales from the consumer electronics appliances business grew to HK\$232.4 million, a significant increase of 28.5% compared with the corresponding period last year and accounted for 70.2% of the Group's total sales. This segment continued to be the Group's major source of revenue.

Posing steady organic growth and satisfactory gross margin, pet training devices continued to be the segment's major income contributor. With over fourteen years' experience in developing and manufacturing pet training devices, SUGA enjoys strong and unique competitive advantages in this market. We are confident of sustaining the growth momentum of this business and ensuring that customer electronics appliances will continue to provide us with stable income.

Our commitment to green manufacturing has attracted to the Group more European customers, who require their manufacturers to comply with stringent environmental requirements for electronics products. During the period under review, SUGA secured a new European OEM customer for Interactive Educational Products. It is a new milestone for the Group in tapping the educational sector that has higher profit margin. The first batch of Interactive Educational Products to the European customer was shipped in August 2006. The Group expects a larger revenue contribution from the above contract in the second half of the fiscal year.

## CHAIRMAN'S STATEMENT

A part of the consumer electronics appliances business, Precise Computer Tooling Company Limited ("Precise") contributed revenue of about HK\$32.3 million (2005: HK\$22.9 million) during the review period. Precise has been a wholly owned subsidiary of the Group since it was acquired in 2004. It specialises in the manufacturing of moulds and plastic components and provides a stable supply of plastic parts to the Group to support production. With a well-established customer base, Precise is able to bring stable contribution to the Group's sales turnover and profit. The payback period of this acquisition is about two years. Going forward, we will strive to maximise the profitability of Precise by streamlining its operations and better allocate resources.

### Telecommunication Products

During the period under review, total sales of telecommunication products amounted to HK\$83.1 million, a decline of 53.8% compared with the corresponding period last year and accounting for 25.1% of the Group's total turnover. The significant drop in turnover was mainly due to the substantial drop in orders, amounted to about HK\$100 million, from one of the Group's major networking products customers. The customer sold a significant portion of its business to another leading networking products provider in China in June 2006 and orders from this customer have shrunk significantly since then. However, with proven skills and expertise in manufacturing networking products, the Group secured a new Japanese customer and widened the profit margin for its networking products.

Although there was a drop in sales of networking products, orders for other products in the segment continued to grow. As an early mover in providing Electronics Manufacturing Services ("EMS") for voice-over-internet-protocol ("VoIP") phones, the Group enjoys well-established relationship with customers, giving it an advantage in capturing the growth markets.

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

Sales of Digital A/V products amounted to HK\$15.5 million for the period under review, representing a decline of 20.6%. Given the digital A/V segment is keenly competitive, the Group resolved to adopt a prudent approach and ceased putting additional resources into the digital A/V products trading business from July 2006 onwards. Hence, the scale of trading business in the segment has significantly reduced. However, the performance of digital photo album and photo frame, which are produced on ODM basis, was satisfactory during the period. As ODM business promises better profit margin, we will focus on it and collaborating closely with major customers to design and develop more new ODM products. By cutting our digital A/V products trading business and concentrating on niche ODM products, we expect this segment to break even in the second half of the fiscal year.

### Prospect

Although the business environment remains challenging, the management believes that the most difficult period for the Group is over and SUGA is now back on track. As a one-stop EMS provider, the Group is committed to maintaining focus on higher margin products backed by its research and development expertise, effective logistic planning and stringent quality assurance processes. The Group will continue to provide existing partners with tailor-made ODM services and at the same time secure more new customers who can give it higher profit margin with products that have niche advantage and good growth potential.

## CHAIRMAN'S STATEMENT

The markets for consumer electronics appliances will remain strong in the foreseeable future and become the Group's main growth driver in the second half and the following year. The Group expects its pet training devices, which enjoy strong and steady demand in the US market, to continue to generate stable revenue and profits.

In addition to pet training devices, the new contract with the European customer in producing Interactive Educational Products will contribute more revenue to the Group in the second half of the fiscal year. We are confident of such new contracts boosting our revenue and profit. The Group is also pursuing another potential business with the same European customer and expects related plans to be finalised soon. The Group sees the new business contributing revenue to the Group in the following year.

In the telecommunication products business, VoIP phones and key telephone systems continue to generate stable revenue for the Group. As for networking products, although one of our major customers withdrew orders, the Group secured a new Japanese customer during the period and the first shipment to this customer was sent off in November 2006.

The resources freed at the strategic decision to stop investing in the digital A/V trading business will be used to develop niche products with higher profit margins. The Group expects the effect of better resources allocation to be reflected in the second half of the year.

Looking ahead, we are confident that our efforts in forging partnership with customers, product development and market exploration will bring notable benefits to our turnover in the future. To enhance competitiveness and profitability, the Group will continue to reinforce its long-standing relationship with existing customers, explore ties with more top-tier customers and focus on higher profit margin businesses.

### Appreciation

On behalf of SUGA, I would like to extend my sincere gratitude to our business associates, customers and shareholders for their continuous support. I would also like to thank our dedicated management team and staff for their hard work over the years. With the support of a strong foundation and a management team and staff committed to growing the Group's sales turnover and profits, SUGA will strive to bring the most rewarding returns to all its shareholders.

On behalf of the Board,  
**Ng Chi Ho**  
*Chairman*

Hong Kong, 12 December 2006

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

#### Turnover

For the six months ended 30 September 2006, the Group recorded a turnover of approximately HK\$331.0 million, a decrease of 12.9% as compared to corresponding period last year. The decrease in turnover was mainly due to the significant decrease in sales of networking products offsetting by the increase in sales of pet training products and inception of new customers in consumer electronics appliances business.

In term of products, consumer electronics appliances still the major income source of the Group. This segment achieved sales growth of 28.5% to reach HK\$232.4 million, which accounted for 70.2% of the Group's turnover. Pet training products sales remain healthy growth and accounted for 53.3% of this segment's total sales for the six months period under review.

Geographically, United States became the major market of the Group. Sales to United States increased by 19.7% to HK\$137.3 million, representing 41.5% of the Group's turnover, up from 30.2% for the corresponding period last year. Sales to Mainland China dropped significantly to HK\$46.1 million, representing 13.9% of the Group's turnover, down from 37.5% for the corresponding period last year.

#### Profit Attributable to the Equity Holders of the Company

For the six months ended 30 September 2006, the Group's gross profit decreased from HK\$48.6 million to HK\$42.8 million while gross profit margin improve slightly to 12.9%. The decrease in gross profit was mainly due to the decrease in sales of networking products, increase in production costs and the rise in material price of copper and plastics. However, with the increase in sales of pet training devices that yield higher profit margin than networking products, gross profit margin increased to 12.9%, as compared to 12.8% of corresponding period last year.

Operating profit was HK\$8.6 million, compared with HK\$17.4 million of the corresponding period last year, a dropped of HK\$8.8 million. Of which, HK\$6.4 million was attributed by decrease in turnover, HK\$2.1 million by increase in distribution and selling expenses and HK\$0.3 million by increase in general and administrative expenses. The increase in distribution and selling expenses and general and administrative expenses was mainly attributable to increase in staff cost and depreciation respectively.

Interest expense for the period increased to HK\$5.0 million from HK\$3.8 million last year. The increase was mainly attributable to the rise in interest rates as compared to corresponding period last year. For the six months ended 30 September 2006, average interest rate increase by approximately 1% as compared to corresponding period last year.

As a result of the aforementioned factors, the Group's profit attributable to the equity holders for the period was approximately HK\$4.6 million, a decrease of HK\$6.9 million from HK\$11.5 million in same period last year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Liquidity and Financial Resources

As at 30 September 2006, the Group's cash and bank balances and net current assets were HK\$51 million and HK\$132 million respectively.

The Group's net borrowings as at 30 September 2006 decreased significantly to HK\$49 million from HK\$94 million as at 31 March 2006. The decrease in bank borrowings was mainly due to the fact that the Group has tightening the control on trade receivables collection and capital expenditure during the period. The Group's net gearing, based on net borrowing to equity, as at 30 September 2006 was 21.8% as compared to 42.7% as at 31 March 2006.

The Group generally finances its business operations by internal generated resources and banking facilities provided by its principal bankers in Hong Kong. Banking facilities include overdrafts, leasing, term loans, revolving loans and trust receipt bank loans which are principally on the floating interest rates. As at 30 September 2006, the Group's aggregate banking facilities was approximately HK\$392 million with an unused balance of approximately HK\$247 million.

### Capital Expenditures

With the tight control on capital expenditure, capital expenditure for the six months period decrease significantly to HK\$2.1 million from HK\$30.3 million of the corresponding period last year. The capital expenditures for the period mainly comprised investment in plant & equipment in Huizhou and Buji plant for plastic business of HK\$1.5 million and purchase of plant and equipment for the expansion in consumer electronics business of HK\$0.6 million.

### Foreign Exchange Exposure

Most of the Group's business transactions are denominated in Hong Kong dollars ("HKD"), United States Dollars ("USD") or Renminbi ("RMB"). As USD is pledged to HKD, the Group does not expect any significant movements in the USD/HKD exchange rate.

As all of the Group's production plants are based in the People's Republic of China, most wages and salaries and manufacturing overheads are mainly denominated in RMB. The continued appreciations of RMB since July 2005 inevitably increase our production costs. However, the fluctuation in RMB is still mild for the time being and the Group's management does not foresee any significant exposure to this currency and therefore did not hedge its foreign currency exposure.

### Pledge of Assets

As at 30 September 2006, the Group did not pledge any of its assets (2005: nil) as securities for generating banking facilities granted to the Group.

### Contingent Liabilities

Corporate guarantees given to banks to secure the borrowings granted to subsidiaries as at 30 September 2006 amounted to HK\$392 million and the Group did not have any other contingent liabilities.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Human Resources**

As at 30 September 2006, the Group had approximately 2,142 employees, of which 89 were based in Hong Kong, Macau and Singapore and the rest were mainly in Mainland China. Competitive remuneration packages are structured to commensurate employees with reference to their individual job duties, 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. A share option scheme was adopted on 17 September 2002 which is valid and effective for a period of 10 years from the adoption date. The principal terms of share option scheme are as disclosed in the Company's 2005/06 Annual Report.

## **OTHER INFORMATION**

### **Interim Dividend**

The Board has resolved to declare an interim dividend of HK0.5 cent per share (2005: HK1.5 cents) for the six months ended 30 September 2006 to shareholders whose names appear on the register of members of the Company on 4 January 2007. The interim dividend will be paid on or before 12 January 2007.

### **Closure of Register**

The register of members of the Company will be closed from 2 January 2007 to 4 January 2007 (both days inclusive) during which period no transfer of shares will be effected. 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 Hong Kong branch share registrar, 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 Friday, 29 December 2006 for registration.

### **Purchase, Sale or Redemption of the Company's Listed Securities**

The Company did not redeem any of its shares during the period. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the period.

### **Compliance With the Code of Corporate Governance Practices**

The Company had complied with the code of provisions as set out in the Appendix 14 "Code of Corporate Governance Practices" to the Listing Rules (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 interim report, the Company does not have a separate Chairman and Chief Executive Officer and Mr. Ng Chi Ho currently holds both positions. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies. Going forward, the Group will periodically review the effectiveness of this arrangement and considers appointing an individual as Chief Executive Officer when it thinks appropriate.

### **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 2006.

### **Public Float**

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

## OTHER INFORMATION

### 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 internal control and financial reporting matters, including the review of the unaudited interim financial information for the six months ended 30 September 2006.

### Directors' Interests in Shares

As at 30 September 2006, the interests and the short position of the directors of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

#### Long position

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

Name of Director	Number of ordinary shares of HK\$0.1 each						Total interests	Percentage of issued ordinary share capital	Number of underlying shares held under equity derivatives (Note 1)
	Personal interests	Corporate interests	Family interest	Trust/similar interest	Other interest				
Mr. Ng Chi Ho	2,000,000	33,596,000 (Note 2)	100,000,000 (Note 3)	-	-	135,596,000	59.49%	2,000,000	
Mr. Ma Fung On	730,000	9,000,000 (Note 4)	-	-	-	9,730,000	4.27%	2,070,000	
Mr. Wong Wai Lik, Lamson	500,000	-	-	-	-	500,000	0.22%	2,300,000	
Professor Wong Sook Leung, Joshua	-	-	-	-	-	-	-	500,000	
Mr. Murase Hiroshi	-	-	-	-	-	-	-	500,000	

## OTHER INFORMATION

Notes:

1. These represent the interests in underlying shares in respect of the share options granted by the Company, the details of which are set out in the sub-section "Information of Share Option Scheme".
2. 33,596,000 shares are held by Billion Linkage Limited, the entire issued shares of which is held by Mr. Ng Chi Ho and his spouse in equal share.
3. 100,000,000 Shares are held by Superior View Inc., the entire issued shares of which is ultimately held by Fidelitycorp Limited as the trustee of the C.H. Family Trust, the beneficiaries of which are the family members of Mr. Ng Chi Ho.
4. 9,000,000 Shares are held by Global Class Enterprises Limited, the entire issued shares of which is held by Mr. Ma Fung On.

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

As at 30 September 2006, each of Mr. Ng Chi Ho and Mr. Ma Fung On held the following non-voting deferred shares of HK\$1 each in Suga Electronics Limited, a wholly owned subsidiary of the Company.

<b>Name of shareholder</b>	<b>Number of non-voting deferred shares</b>
Mr. Ng Chi Ho (Note 1)	3,680,000
Mr. Ma Fung On (Note 2)	240,000

Notes:

1. The 4,000,000 non-voting deferred shares in Suga Electronics Limited are held as to 80% by Essential Mix Enterprises Limited and 20% by Broadway Business Limited. Mr. Ng Chi Ho and Mr. Ma Fung On hold 92% and 6% interests in each of Essential Mix Enterprises Limited and Broadway Business Limited respectively.
2. These non-voting deferred shares have no voting rights, are not entitled to dividends, and are not entitled to any distributions upon winding up unless a sum of HK\$10,000,000,000 per ordinary shares has been distributed to the holders of ordinary shares.

Save as disclosed above and under the "Information of Share Option Scheme", none of the above Directors of the Company have any interests and short position in the shares, underlying shares and debentures of the Company and its associated corporations as defined in the SFO as at 30 September 2006.

## Information of Share Option Scheme

The Company has a share option scheme adopted on 17 September 2002 (the "Share Option Scheme"), under which it may grant options to eligible participants (including Directors of the Company) to subscribe for shares in the Company.

## OTHER INFORMATION

The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, Directors and other selected participants for their contributions to the Group and will also assist the Group in its recruitment and retention of high caliber professionals executives and employees who are instrumental to the growth of the Group.

The principal terms of the Share Option Scheme are as disclosed in the Company's 2005/06 Annual Report.

Details of the share option movements during the period ended 30 September 2006 under the Share Option Scheme are as follows:

	Number of share options				Outstanding at 30 September 2006	Exercise price (HK\$)	Date of grant	Exercisable Period
	Outstanding at 1 April 2006	Granted during the period	Exercised during the period	Lapsed during the period				
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. 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
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	3,210,000	-	-	650,000	2,560,000	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
Others	1,800,000	-	-	-	1,800,000	1.23	5 May 2003	5 May 2003 – 4 May 2008
	(Note 1) 500,000 (Note 2)	-	-	-	500,000	1.23	7 May 2004	7 May 2004 – 6 May 2009
	<u>13,680,000</u>	<u>-</u>	<u>-</u>	<u>650,000</u>	<u>13,030,000</u>			

### Notes:

1. The 1,800,000 share options are held by Mr. Fung Chi Leung, Mark who resigned as director of the Company on 31 October 2004.
2. The 500,000 share options are held by Mr. Kyle Arnold Shaw, Jr. who resigned as director of the Company on 31 October 2005.

## OTHER INFORMATION

### Substantial Shareholders

As at 30 September 2006, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which disclosure to the Company was required under the provisions of Divisions 2 and 3 Part XV of the SFO and which record had been entered in the register kept by the Company pursuant to the section 336 of the SFO.

Name of Shareholder	Number of Ordinary Shares	Percentage
Superior View Inc. (Note 1)	100,000,000	43.87%
Billion Linkage Limited (Note 2)	33,596,000	14.74%
Shaw, Kwei & Partners (Asia) Ltd (Note 3)	12,500,000	5.48%

Notes:

1. 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.
2. The entire issued share capital of Billion Linkage Limited is held by Mr. Ng Chi Ho and his spouse in equal shares and, as such, Mr. Ng Chi Ho is deemed to be interested in all the shares held by Billion Linkage Limited under the SFO.
3. The interests in the 12,000,000 shares are held by Shaw, Kwei & Partners (Asia) Limited as a general partner of the Asian Value Investment Fund L.P. The entire issued share capital of Shaw, Kwei & Partners (Asia) Limited is held by Mr. Kyle Arnold Shaw, Jr..

Save as disclosed above, as far as is known to the Directors, there is no person, other than the Directors and chief executives of the Company, who has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision 2 and 3 of Part XV of the SFO as at 30 September 2006.

### Continuing Obligation Under the Listing Rules

#### Loan Agreement with covenants relating to specific performance of the controlling shareholders

In accordance with rule 13.18 of the Listing Rules, an announcement was made on 24 September 2004 disclosing the details of the facility agreement entered by Suga Electronics Limited and Suga Networks Hong Kong Limited (as borrowers) and P&S Macao Commercial Offshore Limited all are wholly owned subsidiaries of the Company, and the Company (as guarantors), with a syndicate of banks in respect of an unsecured loan facility of up to HK\$120,000,000 (the "Facility") whereby specific performance obligation was imposed on the controlling shareholder of the Group.

## OTHER INFORMATION

As at 30 September 2006, the circumstances giving rise to the disclosure under rule 13.18 continued to exist. In accordance with rule 13.21 of the Listing Rules, details of the facility agreement and the relevant covenants on the controlling shareholder of the Group as at 30 September 2006 are as follows:

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 Shareholders (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 issue 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 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 2006, Mr. Ng, his family members and C.H. Family Trust together beneficially own (directly or indirectly) approximately 59.49% of the issued share capital of the Company.

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Six months ended 30 September	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	4	330,989	379,990
Cost of sales		(288,141)	(331,380)
Gross profit		42,848	48,610
Other gains		3,299	3,928
Distribution and selling expenses		(10,945)	(8,884)
General and administrative expenses		(26,564)	(26,255)
Operating profit	5	8,638	17,399
Interest income		700	138
Interest expense	6	(5,040)	(3,832)
Share of loss of an associate		–	(486)
Profit before taxation		4,298	13,219
Taxation	7	324	(1,695)
Profit attributable to the equity holders of the Company		4,622	11,524
Earnings per share for profit attributable to the equity holders of the Company during the period			
– Basic and diluted (HK cents)	8	2.0	5.1
Interim dividend	9	1,140	3,419

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

		<b>As at 30 September 2006</b>	<b>As at 31 March 2006</b>
	Note	HK\$'000 (Unaudited)	HK\$'000 (Audited)
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	10	85,802	94,115
Land use rights	11	4,443	4,505
Goodwill	12	1,059	1,059
Deferred development cost	12	–	–
Interest in an associate		–	–
Deferred tax assets		3,676	3,489
		<hr/>	<hr/>
		94,980	103,168
Current assets			
Inventories		137,337	164,695
Trade and other receivables	13	155,322	169,531
Tax recoverable		1,401	1,037
Cash and cash equivalents		51,147	62,899
		<hr/>	<hr/>
		345,207	398,162
<b>Total assets</b>		<hr/> <b>440,187</b>	<hr/> <b>501,330</b>
<b>LIABILITIES</b>			
Current liabilities			
Bank borrowings	14	99,629	155,300
Trade and other payables	15	95,147	105,772
Finance lease liabilities	14	75	946
Bank advances for factored receivables		6,766	5,019
Taxation payable		11,519	11,250
		<hr/>	<hr/>
		213,136	278,287
Non-current liabilities			
Finance lease liabilities	14	162	200
Deferred tax liabilities		3,386	3,986
		<hr/>	<hr/>
		3,548	4,186
<b>Total liabilities</b>		<hr/> <b>216,684</b>	<hr/> <b>282,473</b>

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET *(Continued)*

		<b>As at 30 September 2006</b>	<b>As at 31 March 2006</b>
	Note	HK\$'000 (Unaudited)	HK\$'000 (Audited)
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	16	22,794	22,794
Other reserves		69,903	69,879
Retained earnings			
– Proposed dividend		1,140	–
– Others		129,666	126,184
		<hr/>	<hr/>
Total equity		223,503	218,857
		<hr/>	<hr/>
Total equity and liabilities		440,187	501,330
		<hr/>	<hr/>
Net current assets		132,071	119,875
		<hr/>	<hr/>
Total assets less current liabilities		227,051	223,043
		<hr/>	<hr/>

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006 (Unaudited)

	Attributable to the equity holders of the Company					
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
As at 1 April 2006	22,794	53,515	5,773	10,591	126,184	218,857
Exchange difference arising on translation of the accounts of a foreign subsidiary	-	-	24	-	-	24
Profit attributable to the equity holders of the Company	-	-	-	-	4,622	4,622
As at 30 September 2006	<u>22,794</u>	<u>53,515</u>	<u>5,797</u>	<u>10,591</u>	<u>130,806</u>	<u>223,503</u>
Representing:						
Proposed dividend					1,140	
Others					129,666	
					<u>130,806</u>	

For the six months ended 30 September 2005 (Unaudited)

	Attributable to the equity holders of the Company					
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
As at 1 April 2005	22,794	53,515	2,453	10,591	129,052	218,405
Exchange difference arising on translation of the accounts of a foreign subsidiary	-	-	(17)	-	-	(17)
Profit attributable to the equity holders of the Company	-	-	-	-	11,524	11,524
Dividends paid	-	-	-	-	(798)	(798)
As at 30 September, 2005	<u>22,794</u>	<u>53,515</u>	<u>2,436</u>	<u>10,591</u>	<u>139,778</u>	<u>229,114</u>
Representing:						
Proposed dividend					3,419	
Others					136,359	
					<u>139,778</u>	

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Six months ended 30 September	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Net cash inflow/(outflow) from operating activities	49,503	(30,773)
Net cash outflow from investing activities	(1,402)	(30,165)
Net cash (outflow)/inflow from financing activities	(59,873)	44,327
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(11,772)	(16,611)
Effect of foreign exchange rate changes	20	(14)
Cash and cash equivalents, beginning of period	62,899	70,407
	<hr/>	<hr/>
Cash and cash equivalents, end of period	<u>51,147</u>	<u>53,782</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<u>51,147</u>	<u>53,782</u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 1. General information

Suga International Holdings Limited (“the Company”) and its subsidiaries and an associate (together “the Group”) are principally engaged in the research and development, manufacturing and sales of electronic products. The Group has operations mainly within Hong Kong, Mainland China, Macau and Singapore.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company is listed on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”).

This condensed consolidated interim financial information was approved on 12 December 2006.

### 2. Basis of preparation

These unaudited condensed consolidated interim financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“the HKICPA”) and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). These condensed consolidated interim financial information should be read in conjunction with the 2005/06 annual financial statements.

### 3. Accounting policies

The principal accounting policies and method of computation used in the preparation of these unaudited condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31 March 2006 except for the adoption of amendments to standards and an interpretation which are effective for the year ending 31 March 2007 as set out below:

HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS Interpretation 4	Determining whether an Arrangement contains a Lease

The adoption of the above amendments to standards and interpretation did not result in substantial changes to the Group’s accounting policies.

The Group has not early adopted any new standards, amendments to standards or interpretations that have been issued but are not effective for the year ending 31 March 2007. The Group has already commenced an assessment of their impact but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 4. Segmental information

(a) Primary reporting format – business segments

	Six months ended 30 September 2006			
	Consumer electronics appliances	Telecommunication products	Digital A/V products	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Total segment revenue	236,231	83,054	15,573	334,858
Inter-segment revenue	(3,869)	–	–	(3,869)
	<u>232,362</u>	<u>83,054</u>	<u>15,573</u>	<u>330,989</u>
Segment results	<u>12,025</u>	<u>(1,847)</u>	<u>(4,839)</u>	5,339
Other gains				3,299
Interest income				700
Interest expense				(5,040)
Taxation				324
Profit attributable to the equity holders of the Company				<u>4,622</u>

	Six months ended 30 September 2005			
	Consumer electronics appliances	Telecommunication products	Digital A/V products	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Total segment revenue	190,658	179,590	19,608	389,856
Inter-segment revenue	(9,866)	–	–	(9,866)
	<u>180,792</u>	<u>179,590</u>	<u>19,608</u>	<u>379,990</u>
Segment results	<u>16,360</u>	<u>5,036</u>	<u>(7,925)</u>	13,471
Other gains				3,928
Interest income				138
Interest expense				(3,832)
Share of loss of an associate				(486)
Taxation				(1,695)
Profit attributable to the equity holders of the Company				<u>11,524</u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 4. Segmental information *(Continued)*

(b) *Secondary reporting format – geographical segments*

	Six months ended 30 September 2006		2005	
	Turnover HK\$'000	Segment results HK\$'000	Turnover HK\$'000	Segment results HK\$'000
The United States of America	137,296	10,523	114,735	13,196
Mainland China	46,053	(1,577)	142,615	2,989
Asian Pacific Region (excluding Mainland China)	132,875	(3,846)	116,064	(2,753)
Europe	14,765	239	6,576	39
	<u>330,989</u>	<u>5,339</u>	<u>379,990</u>	<u>13,471</u>

### 5. Operating profit

The following items have been charged/(credited) to the operating profit during the interim period:

	Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Staff costs, including directors' emoluments	33,119	26,561
Depreciation of property, plant and equipment		
– owned assets	9,640	6,922
– assets held under finance leases	773	1,304
Amortisation of land use rights	62	46
Amortisation of deferred development costs (included in general and administrative expenses)	–	1,226
Provision for obsolete and slow-moving inventories	–	700
Write back of provision for obsolete and slow-moving inventories	(87)	–
	<u>          </u>	<u>          </u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 6. Interest expense

	Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Interest on:		
– bank loan wholly repayable within five years	5,018	3,762
– finance lease liabilities	22	70
	5,040	3,832

### 7. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Current tax		
– Hong Kong profits tax	200	4,083
– Overseas taxation	263	340
	463	4,423
Deferred taxation relating to the origination and reversal of temporary differences	(787)	(2,728)
	(324)	1,695

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 8. Earnings per share

The calculation of basic earnings per share for the six months ended 30 September 2006 is based on the profit attributable to the equity holders of the Company of HK\$4,622,000 (2005: HK\$11,524,000) and the weighted average number of 227,940,000 (2005: 227,940,000) ordinary shares in issue during the period.

The Company had no potential dilutive ordinary shares in existence during the period ended 30 September 2006, therefore the diluted earnings per share is the same as the basic earnings per share.

### 9. Interim dividend

The Board has resolved to declare an interim dividend of HK0.5 cent per share (2005: HK1.5 cents) for the six months ended 30 September 2006 to shareholders whose names appear on the register of members of the Company on 4 January 2007. The interim dividend will be paid on or before 12 January 2007.

### 10. Property, plant and equipment

	HK\$'000
Opening net book amount as at 1 April 2006	94,115
Additions	2,102
Disposals	(6)
Exchange differences	4
Depreciation	(10,413)
	<hr/>
Closing net book amount as at 30 September 2006	<u>85,802</u>
	HK\$'000
Opening net book amount as at 1 April 2005	77,382
Additions	28,716
Disposals	(20)
Exchange differences	(3)
Depreciation	(8,226)
	<hr/>
Closing net book amount as at 30 September 2005	<u>97,849</u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 11. Land use rights

	HK\$'000
Opening net book amount as at 1 April 2006	4,505
Amortisation	(62)
	<u>4,443</u>
Closing net book amount as at 30 September 2006	<u>4,443</u>
	HK\$'000
Opening net book amount as at 1 April 2005	2,987
Additions	1,595
Amortisation	(46)
	<u>4,536</u>
Closing net book amount as at 30 September 2005	<u>4,536</u>

### 12. Intangible assets

	<b>Goodwill</b>	
	HK\$'000	
Net book amount as at 1 April and 30 September 2006	<u>1,059</u>	
	<b>Goodwill</b>	<b>Deferred development cost</b>
	HK\$'000	HK\$'000
Net book amount as at 1 April 2005	1,059	1,226
Amortisation	<u>–</u>	<u>(1,226)</u>
Net book amount as at 30 September 2005	<u>1,059</u>	<u>–</u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 13. Trade and other receivables

During the period ended 30 September 2006, the Group generally granted credit terms to its customers ranging from 30 to 90 days.

	<b>As at 30 September 2006</b>	<b>As at 31 March 2006</b>
	HK\$'000	HK\$'000
Trade receivables	153,808	170,852
Less: Provision for impairment	(8,465)	(8,665)
	<hr/>	<hr/>
Trade receivables, net	145,343	162,187
Prepayment, deposits and other receivables	9,979	7,344
	<hr/>	<hr/>
	<b>155,322</b>	<b>169,531</b>
	<hr/>	<hr/>

The carrying value of the Group's trade and other receivables approximates their fair value.

The ageing analysis of trade receivables is as follows:

	<b>As at 30 September 2006</b>	<b>As at 31 March 2006</b>
	HK\$'000	HK\$'000
0 to 30 days	125,406	122,676
31 to 60 days	9,848	20,060
61 to 90 days	3,903	13,865
91 to 180 days	6,400	7,027
Over 180 days	8,251	7,224
	<hr/>	<hr/>
	153,808	170,852
Less: Provision for impairment	(8,465)	(8,665)
	<hr/>	<hr/>
Trade receivables, net	<b>145,343</b>	<b>162,187</b>
	<hr/>	<hr/>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 13. Trade and other receivables (Continued)

As at 30 September 2006, a subsidiary of the Company had factored trade receivables of approximately HK\$6,766,000 (As at 31 March 2006: HK\$5,019,000) (the "Factored Receivables") to a bank on a non-recourse basis for cash under certain receivables purchase agreements. As the subsidiary of the Company still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, the proceeds from the factoring of trade receivables have been accounted for as the Group's liabilities and included in "Bank advances for factored receivables".

### 14. Bank borrowings

	<b>As at 30 September 2006</b>	<b>As at 31 March 2006</b>
	HK\$'000	HK\$'000
Short term bank borrowings	99,629	155,300
Finance lease liabilities	237	1,146
	<u>99,866</u>	<u>156,446</u>

The maturity of borrowings is as follows:

	<b>As at 30 September 2006</b>	<b>As at 31 March 2006</b>
	HK\$'000	HK\$'000
Within one year	99,704	156,246
In the second to fifth year	162	200
	<u>99,866</u>	<u>156,446</u>

The Group has agreed to comply with certain restrictive financial covenants imposed by certain banks. The financial covenants include, among others, the maintenance of specific financial ratios. As at 30 September 2006, the Group was in breach of financial covenants relating to two outstanding bank loans of approximately HK\$1,875,000 and HK\$14,444,000, which are repayable within 6 months from the balance sheet date. Such bank loans have been included in current liabilities, and had been repaid in full subsequently.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 15. Trade and other payables

	<b>As at 30 September 2006</b>	<b>As at 31 March 2006</b>
	HK\$'000	HK\$'000
0 to 30 days	64,392	70,165
31 to 60 days	12,629	7,281
61 to 90 days	1,211	6,087
91 to 180 days	2,307	4,329
Over 180 days	2,443	8,492
	<hr/>	<hr/>
	82,982	96,354
Accruals and other payables	12,165	9,418
	<hr/>	<hr/>
	95,147	105,772
	<hr/>	<hr/>

### 16. Share capital

	<b>Number of shares</b>	<b>Nominal value</b>
	'000	HK\$'000
Authorised ordinary shares of HK\$0.10 each		
As at 1 April and 30 September 2006	2,000,000	200,000
	<hr/>	<hr/>
Issued and fully paid ordinary shares of HK\$0.10 each		
As at 1 April and 30 September 2006	227,940	22,794
	<hr/>	<hr/>

### 17. Contingent liabilities

As at 30 September 2006, the Group's contingent liabilities had not changed significantly from the last year end.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 18. Commitments

#### *Operating lease commitments*

The Group had future aggregate minimum lease payments in respect of rented premises under non-cancellable operating leases as follows:

	<b>As at 30 September 2006</b>	<b>As at 31 March 2006</b>
	HK\$'000	HK\$'000
Not later than one year	1,035	1,572
Later than one year and not later than five years	312	505
	<u>1,347</u>	<u>2,077</u>

### 19. Related party transactions

(a) During the period, the Group has the following related party transactions:

	<b>Six months ended 30 September</b>	
	<b>2006</b>	<b>2005</b>
	HK\$'000	HK\$'000
Technical consultancy fee paid to Micom Tech Limited (Note i)	200	229
License fee paid to Micom Tech Limited (Note i)	206	206
Sales of electronics products to an associated company	<u>226</u>	<u>120</u>

Notes:

- (i) Mr. Ng Chi Ho, a director of the Company, holds interests and is a director of Micom Tech Limited;
- (ii) In the opinion of the Company's Directors, the above transactions were carried out in the normal course of the Group's business, and conducted at terms mutually agreed by the respective parties.
- (b) Key management compensation

	<b>Six months ended 30 September</b>	
	<b>2006</b>	<b>2005</b>
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	4,025	3,577
Post-employment benefits	<u>247</u>	<u>242</u>
	<u>4,272</u>	<u>3,819</u>