# SUGA INTERNATIONAL HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 912)**

## INTERIM RESULTS ANNOUNCEMENT
## FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

**FINANCIAL HIGHLIGHTS**

– Revenue amounted to HK$343.3 million (2006: HK$331.0 million)

– Gross profit was HK$45.0 million (2006: HK$42.8 million)

– Net profit was HK$9.7 million (2006: HK$4.6 million)

– Basic earnings per share was HK4.22 cents (2006: HK2.03 cents)

– The Board has resolved to declare an interim dividend of HK1.0 cent per share (2006: HK0.5 cent)

The Board of Directors (the “Directors”) of Suga International Holdings Limited would like to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2007:

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

| | | Six months ended 30 September | |
|---|---|---|---|
| | | **2007** | 2006 |
| | *Note* | ***HK$’000*** | *HK$’000* |
| | | **(Unaudited)** | (Unaudited) |
| Revenue | *3* | **343,254** | 330,989 |
| Cost of sales | *4* | **(298,244)** | (288,141) |
| Gross profit | | **45,010** | 42,848 |
| Other income | | **86** | 413 |
| Distribution and selling expenses | *4* | **(9,226)** | (10,945) |
| General and administrative expenses | *4* | **(24,350)** | (23,678) |
| | | **11,520** | 8,638 |
| Finance income | *5* | **157** | 700 |
| Finance costs | *5* | **(1,540)** | (5,040) |
| Finance costs – net | *5* | **(1,383)** | (4,340) |
| Profit before income tax | | **10,137** | 4,298 |
| Income tax (expense)/credit | *6* | **(409)** | 324 |
| Profit for the period | | **9,728** | 4,622 |
| Earnings per share for profit attributable to equity holders of the Company during the period | | | |
| – Basic (HK cents) | *7* | **4.22** | 2.03 |
| – Diluted (HK cents) | *7* | **4.17** | 2.03 |
| Interim dividend | *8* | **2,307** | 1,140 |

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

| | *Note* | **As at 30 September 2007 *HK$'000* (unaudited)** | As at 31 March 2007 *HK$'000* (audited) |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | **70,340** | 78,028 |
| Land use rights | | **4,437** | 4,443 |
| Goodwill | | **1,059** | 1,059 |
| Deferred income tax assets | | **3,131** | 3,063 |
| | | **78,967** | 86,593 |
| Current assets | | | |
| Inventories | | **124,933** | 130,210 |
| Trade and other receivables | *9* | **144,315** | 119,902 |
| Tax recoverable | | **1,194** | 577 |
| Cash and cash equivalents | | **57,506** | 45,099 |
| | | **327,948** | 295,788 |
| Total assets | | **406,915** | 382,381 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Bank borrowings | | **33,547** | 41,658 |
| Trade and other payables | *10* | **80,358** | 76,058 |
| Finance lease liabilities | | **79** | 77 |
| Bank advances for factored receivables | | **11,700** | 8,602 |
| Income tax payable | | **13,807** | 13,243 |
| | | **139,491** | 139,638 |
| Non-current liabilities | | | |
| Bank borrowings | | **14,545** | - |
| Finance lease liabilities | | **83** | 123 |
| Deferred income tax liabilities | | **3,778** | 3,902 |
| | | **18,406** | 4,025 |
| Total liabilities | | **157,897** | 143,663 |
| EQUITY | | | |
| Capital and reserves attributable to the equity holders of the Company | | | |
| Share capital | | **23,074** | 22,994 |
| Other reserves | | **83,470** | 78,442 |
| Retained earnings | | | |
| – Proposed dividend | | **2,307** | 4,609 |
| – Others | | **140,167** | 132,673 |
| Total equity | | **249,018** | 238,718 |
| Total equity and liabilities | | **406,915** | 382,381 |
| Net current assets | | **188,457** | 156,150 |
| Total assets less current liabilities | | **267,424** | 242,743 |

*Notes:*

**1. Basis of preparation**

These unaudited condensed consolidated financial information for the six months ended 30 September 2007 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 2006/07 annual financial statements.

**2. 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 2007 except for the adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs which are effective from accounting periods beginning on or after 1 April 2007 and relevant to its operations as set out below:

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC)-Int 11 | HKFRS 2 – Group and Treasury Share Transfer |

The adoption of the above new standard, amendment and interpretations has no material impact on the condensed consolidated interim financial information of the Group.

The following new standards and interpretations have been issued by HKICPA but are not effective for financial year ending 31 March 2008 and have not been early adopted:

| | |
|---|---|
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Int 12 | Service Concession Arrangements |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes |
| HK(IFRIC)-Int 14 | HKAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |
| HKAS 23 (Revised) | Borrowing Costs |

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.

## 3. Segmental information

*(a) Primary reporting format – Business segments*

| | **Six months ended 30 September 2007** | | |
|---|---|---|---|
| | **Consumer electronics appliances and other products** | **Telecommuni-cation products** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Total segment revenue | **268,111** | **75,143** | **343,254** |
| Segment results | **10,502** | **932** | **11,434** |
| Other income | | | **86** |
| Finance income | | | **157** |
| Finance costs | | | **(1,540)** |
| Income tax expense | | | **(409)** |
| Profit for the period | | | **9,728** |

| | Six months ended 30 September 2006 | | |
|---|---|---|---|
| | Consumer electronics appliances and other products | Telecommuni-cation products | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Total segment revenue | 247,935 | 83,054 | 330,989 |
| Segment results | 8,872 | (647) | 8,225 |
| Other income | | | 413 |
| Finance income | | | 700 |
| Finance costs | | | (5,040) |
| Income tax credit | | | 324 |
| Profit for the period | | | 4,622 |

*(b) Secondary reporting format – Geographical segments*

| | Six months ended 30 September | | | |
|---|---|---|---|---|
| | **2007** | | 2006 | |
| | **Turnover** | **Segment results** | Turnover | Segment results |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Asian Pacific Region (excluding the PRC) | **136,810** | **838** | 132,875 | (2,983) |
| The United States of America | **124,601** | **9,459** | 137,296 | 11,795 |
| Europe | **65,134** | **1,034** | 14,765 | 400 |
| The PRC | **16,709** | **103** | 46,053 | (987) |
| | **343,254** | **11,434** | 330,989 | 8,225 |

## 4. Expenses by nature

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

| | Six months ended 30 September | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories | **264,617** | 252,275 |
| Staff costs, including directors' emoluments | **33,482** | 33,119 |
| Depreciation of property, machinery and equipment | | |
| – owned assets | **10,252** | 9,640 |
| – assets held under finance leases | **42** | 773 |
| Amortisation of land use rights | **64** | 62 |
| Provision for impairment of trade receivables | **369** | – |
| Provision for obsolete and slow-moving inventories | **16** | – |
| Written back of obsolete and slow-moving inventories | **–** | (87) |
| Other expenses | **22,978** | 26,982 |
| Total cost of sales, distribution and selling expenses and general and administrative expenses | **331,820** | 322,764 |

## 5. Finance costs

| | Six months ended 30 September | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Interest on: | | |
| – bank borrowings wholly repayable within five years | **(1,536)** | (5,018) |
| – finance leases liabilities | **(4)** | (22) |
| Finance costs | **(1,540)** | (5,040) |
| Finance income | **157** | 700 |
| Finance costs – net | **(1,383)** | (4,340) |

## 6. Income tax expense/(credit)

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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 | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Current income tax: | | |
| – Hong Kong profits tax | **492** | 200 |
| – Income tax outside Hong Kong | **110** | 263 |
| | **602** | 463 |
| Deferred income tax relating to the origination and reversal of temporary differences | **(193)** | (787) |
| Income tax expense/(credit) | **409** | (324) |

## 7. Earnings per share

*(a)* *Basic*

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

| | Six months ended 30 September | |
|---|---|---|
| | **2007** | 2006 |
| Profit attributable to equity holders of the Company *(HK$'000)* | **9,728** | 4,622 |
| Weighted average number of ordinary shares in issue *('000)* | **230,444** | 227,940 |
| Basic earnings per share *(HK cents)* | **4.22** | 2.03 |

*(b)* *Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares which is the share options granted to employees. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | **Six months ended 30 September 2007** |
|---|---|
| Profit attributable to equity holders of the Company *(HK$'000)* | **9,728** |
| Weighted average number of ordinary shares in issue *('000)* | **230,444** |
| Adjustments for share options *('000)* | **2,827** |
| Weighted average number of ordinary shares for diluted earnings per share *('000)* | **233,271** |
| Diluted earnings per share *(HK cents)* | **4.17** |

Diluted earnings per share is the same as basic earnings per share for the six months ended 30 September 2006 as the outstanding options are anti-dilutive.

## 8. Interim dividend

The Board has resolved to declare an interim dividend of HK1.0 cent per share for the six months ended 30 September 2007 (2006: HK0.5 cent) payable to shareholders whose names appear on the register of members of the Company on 3 January 2008. The interim dividend will be paid on or before 16 January 2008.

## 9. Trade and other receivables

| | **As at 30 September 2007** *HK$'000* | As at 31 March 2007 *HK$'000* |
|---|---|---|
| Trade receivables | **136,718** | 119,546 |
| *Less:* Provision for impairment | **(9,648)** | (9,224) |
| Trade receivables, net | **127,070** | 110,322 |
| Prepayment, deposits and other receivables | **17,245** | 9,580 |
| | **144,315** | 119,902 |

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

The ageing analysis of trade receivables is as follows:

| | **As at 30 September 2007** *HK$'000* | As at 31 March 2007 *HK$'000* |
|---|---|---|
| 0 to 30 days | **100,659** | 98,840 |
| 31 to 60 days | **12,367** | 4,941 |
| 61 to 90 days | **9,368** | 1,950 |
| 91 to 180 days | **3,834** | 4,416 |
| Over 180 days | **10,490** | 9,399 |
| | **136,718** | 119,546 |
| *Less:* Provision for impairment | **(9,648)** | (9,224) |
| Trade receivables, net | **127,070** | 110,322 |

At 30 September 2007, a subsidiary of the Company had factored trade receivables of approximately HK$11,700,000 (As at 31 March 2007: HK$8,602,000) (the "Factored Receivables") to banks 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".

## 10. Trade and other payables

| | **As at 30 September 2007** *HK$'000* | As at 31 March 2007 *HK$'000* |
|---|---|---|
| 0 to 30 days | **57,486** | 54,186 |
| 31 to 60 days | **9,226** | 8,849 |
| 61 to 90 days | **2,184** | 234 |
| 91 to 180 days | **1,862** | 1,712 |
| Over 180 days | **1,229** | 380 |
| Trade payables | **71,987** | 65,361 |
| Accruals and other payables | **8,371** | 10,697 |
| | **80,358** | 76,058 |

## CLOSURE OF REGISTER

The register of members of the Company will be closed from 2 January 2008 to 3 January 2008 (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 4:30 p.m. on Monday, 31 December 2007 for registration.

## CHAIRMAN'S MESSAGE

SUGA recorded a turnover of approximately HK$343.3 million for the period, compared to HK$331.0 million for the corresponding period last year. We were able to grow turnover by 3.7% despite a substantial drop in orders from a major networking products customer in China because our consumer electronic appliances business had notable success with new product launches.

Applying effective cost control measures, the Group's gross profit grew to HK$45.0 million from HK$42.8 million in the same period last year. Gross profit margin was 13.1% (2006: 12.9%). With increased contributions from higher profit margin businesses and significantly reduced interest expenses, profit attributable to shareholders surged by 110.5% to HK$9.7 million (2006: HK$4.6 million). Net profit margin was 2.8% (2006: 1.4%). Basic earnings per share were HK4.2 cents (2006: HK2.0 cents).

## BUSINESS OVERVIEW

### Consumer Electronic Appliances

Sales from the consumer electronic appliances business grew to HK$268.1 million, up 8.1% compared with the same period last year and accounted for 78.1% of the Group's total revenue. This segment remained as our major source of revenue.

As for the more matured products, pet training devices continued to deliver steady income and satisfactory gross margin. It continued to be the major revenue contributor in the segment.

We continued to actively expand our customer base and diversify our product portfolio. Since the last fiscal year, the Group has started manufacturing interactive educational products and bluetooth headsets for two new European customers. Revenue from these two customers grew significantly during the review period against the corresponding period last year. We are confident of our ability to capture more orders in the second half of the fiscal year. These products have higher margins and will help increase SUGA's overall profitability.

During the review period, we also secured a new Australian customer who is a world leader in the development and supply of integrated fare management and software systems, smart card systems and services for the transit industry. The Group finished product testing and trial run of electronic ticket processors during the period under review and the first batch of such processors was shipped in September 2007.

**Telecommunication Products**

Total sales of telecommunication products amounted to HK$75.1 million, a decline of 9.5% compared with the last corresponding period, accounting for 21.9% of the Group's total revenue. Excluding sales from a networking product customer in the same period last year, which sold a significant portion of its business to another leading networking product provider in China in June 2006, the sales of other products from this segment actually increased by 24.2%.

The segment's performance was braced mainly by several Japanese customers ordering networking products, key telephone systems and voice-over-internet-protocol ("VoIP") phones from the Group. The latter two products had satisfactory growth in sales during the review period.

## PROSPECT

Looking ahead, we will continue to provide the best products, services and support to our customers. The Group's quality services have continued to bring accolades. In October 2007, SUGA was recognised as "The Best Vendor for Brookstone 2007" for its efficient, timely and high volume product delivery. In the same month, SUGA received certification under the Hong Kong Green Mark Certification Scheme recognising its relentless efforts in implementing effective environmental protection measures.

Taking into account the improving economy, demand for consumer electronic appliances will remain strong in the foreseeable future. Pet training devices will see organic growth. Orders from the two European customers for interactive educational products and Bluetooth headsets with higher profit margins will be our key revenue drivers. Furthermore, as shipment of electronic ticket processors has commenced in September 2007, more meaningful contributions from the product will be reflected in the second half of the fiscal year.

Applying its strong research and development expertise, the Group will explore ways to offer tailor-made Original Design Manufacturing ("ODM") services and secure new customers with products that have niche advantages and good growth potential.

Moving forward, by focusing on high margin businesses, we are confident of enhancing our competitiveness and profitability. The Group will continue to explore business opportunities with new customers and at the same time remain open to opportunities for potential mergers and acquisitions to accelerate growth. With clear goal to widen our customer base with high growth and distinctive competitiveness, we will strive to bring ample rewards to our shareholders.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2007, net current assets of the Group maintained at a healthy level of approximately HK$188.5 million with a liquidity ratio of 2.35, up from 2.12 as at 31 March 2007. Gearing ratio (calculated by dividing total bank borrowings by total equity) remains at a safety level of 19.4% slightly increased from 17.5% as at 31 March 2007. However, the Group was able to maintain a net cash position of HK$9.3 million as at the balance sheet date, an increased of HK$6.1 million as compared to net cash of HK$3.2 million as at 31 March 2007.

As at 30 September 2007, the Group had aggregate facilities of approximately HK$373 million (As at 31 March 2007: HK$366 million) from its principal bankers for overdrafts, loans and trade financing, with unused facilities of HK$253 million (As at 31 March 2007: HK$267 million).

The Group generally finances its business operations by internal generated resources and banking facilities provided by its principal bankers in Hong Kong. Banking facilities used by the Group include revolving bank loans, trust receipt loans, overdrafts, leasing and term loans, which are primarily on floating interest rates.

## CAPITAL EXPENDITURES

The Group's total capital expenditures for the period under review was HK$1.5 million of which mainly comprised investment in machineries and equipment for Green manufacturing.

## FOREIGN EXCHANGE EXPOSURE

The Group has foreign currency risk as certain financial assets and liabilities are denominated in foreign currencies principally 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 Group does not expect the appreciation or depreciation of the Renminbi might materially affect the Group's result of operations. The Group did not employ any financial instruments for hedging purposes. However management will continue to monitor foreign currency exchange exposure and will take prudent measures to minimise the currency translation risk.

## PLEDGE OF ASSETS

As at 30 September 2007, the Group did not pledge any of its assets (2006: nil) as securities for generating banking facilities granted to the Group.

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 September 2007, the Group had an outstanding capital commitment of approximately HK$15.9 million for investment in the PRC subsidiaries. Corporate guarantees given to banks to secure the borrowings granted to subsidiaries as at 30 September 2007 amounted to HK$108.1 million (As at 31 March 2007: HK$90.6 million) and the Group did not have any other contingent liabilities.

## HUMAN RESOURCES

As at 30 September 2007, the Group had approximately 2,055 employees, of which 72 were based in Hong Kong and Macao and the rest were mainly in the PRC. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the individual and company performance. In addition to salaries and other usual benefits like annual leave, medical insurance and various mandatory pension schemes, the Group also provides educational sponsorship subsidies, discretionary performance bonus and share options. A share option scheme was adopted on 17 September 2002 that 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 2006/07 Annual Report.

## 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 2007.

## 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 2007.

**APPRECIATION**

Finally, on behalf of SUGA, I would like to extend my heartfelt appreciation to the management team and our staff for the efforts and contributions they made during the review period. My thanks also go to our business associates, customers and shareholders for their continuous support.

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

Hong Kong, 12 December 2007

*The Directors of the Company as at the date of this announcement are Mr. Ng Chi Ho, Mr. Ma Fung On and Mr. Wong Wai Lik, Lamson as executive directors; Professor Wong Sook Leung, Joshua, Mr. Murase Hiroshi and Mr. Leung Yu Ming, Steven as independent non-executive directors.*