



# SUNWAY INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)(Stock Code: 00058)

Interim Report  
2005/06

## UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of Sunway International Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 March 2006 (the "Period"), together with the comparative figures for the previous corresponding period as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<b>(UNAUDITED)</b>	
		<b>Six months ended 31 March</b>	
	<i>Notes</i>	<b>2006</b>	2005
		<b>HK\$'000</b>	HK\$'000
			<i>(Restated)</i>
Turnover	2	<b>453,277</b>	457,594
Cost of sales		<b>(427,717)</b>	(420,348)
Gross profit		<b>25,560</b>	37,246
Other revenue and gains		<b>2,366</b>	761
Selling and distribution costs		<b>(2,667)</b>	(4,289)
Administrative expenses		<b>(20,084)</b>	(20,414)
Other operating income		<b>1,159</b>	1,285
Profit from operating activities	3	<b>6,334</b>	14,589
Finance costs	4	<b>(305)</b>	(13)
Share of profit of a jointly-controlled entity		<b>185</b>	2,093
Profit before tax		<b>6,214</b>	16,669
Tax	5	<b>(906)</b>	(2,784)
Net profit from ordinary activities attributable to shareholders		<b>5,308</b>	13,885
Interim dividend	6	<b>Nil</b>	Nil
Earnings per share	7		
– Basic		<b>0.52 cents</b>	1.37 cents
– Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

		(UNAUDITED) 31 March 2006 HK\$'000	(AUDITED) 30 September 2005 HK\$'000 (Restated)
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>378,601</b>	398,751
Owner-occupied leasehold interest in land		<b>33,212</b>	33,534
Interest in a jointly-controlled entity		<b>16,041</b>	15,901
Deferred tax assets		<b>1,784</b>	1,761
Deposits paid for acquisition of fixed assets		<b>47,623</b>	15,805
		<b>477,261</b>	465,752
<b>CURRENT ASSETS</b>			
Inventories		<b>263,918</b>	272,626
Accounts receivable	9	<b>182,470</b>	181,883
Prepayments, deposits and other receivables		<b>36,074</b>	19,308
Owner-occupied leasehold interest in land		<b>723</b>	723
Due from a related company		<b>6,482</b>	6,247
Short term investments		<b>4,980</b>	4,980
Tax recoverable		<b>540</b>	658
Pledged time deposits		<b>3,130</b>	15,555
Cash and cash equivalents		<b>153,565</b>	155,439
		<b>651,882</b>	657,419
<b>CURRENT LIABILITIES</b>			
Accounts payable	10	<b>89,798</b>	126,357
Accrued liabilities and other payables		<b>42,931</b>	43,378
Interest-bearing bank borrowings		<b>53,201</b>	13,288
Dividend payable		<b>10,160</b>	–
Tax payable		<b>23,931</b>	23,118
		<b>220,021</b>	206,141
<b>NET CURRENT ASSETS</b>		<b>431,861</b>	451,278
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>909,122</b>	917,030
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>6,285</b>	6,285
		<b>902,837</b>	910,745
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	<b>101,600</b>	101,600
Reserves		<b>801,237</b>	798,985
Proposed final dividend		<b>–</b>	10,160
		<b>902,837</b>	910,745

## CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY - UNAUDITED

	Share capital	Share premium account	Capital Contributed surplus	Capital redemption reserve	Revaluation reserve	Exchange fluctuation reserve	Reserve fund	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 October 2004 (originally stated)	101,600	177,325	56,471	509	48,282	(7,335)	-	497,761	874,613
Prior year adjustment: Effect of adoption of HKAS 17	-	-	-	-	(182)	-	-	7	(175)
At 1 October 2004 (as restated)	101,600	177,325	56,471	509	48,100	(7,335)	-	497,768	874,438
Exchange realignment on translation of the financial statements of foreign subsidiaries	-	-	-	-	-	8,638	-	-	8,638
Transfer from retained profits	-	-	-	-	-	-	11,180	(11,180)	-
Effect of adoption of HKAS 17	-	-	-	-	-	-	-	4	4
Net profit for the year	-	-	-	-	-	-	-	27,665	27,665
Proposed final 2005 dividend	-	-	-	-	-	-	-	(10,160)	(10,160)
At 30 September 2005 and 1 October 2005 (as restated)	101,600	177,325	56,471	509	48,100	1,303	11,180	504,097	900,585
Exchange realignment on translation of the financial statements of foreign subsidiaries	-	-	-	-	-	(3,056)	-	-	(3,056)
Net profit for the period	-	-	-	-	-	-	-	5,308	5,308
<b>At 31 March 2006</b>	<b>101,600</b>	<b>177,325</b>	<b>56,471</b>	<b>509</b>	<b>48,100</b>	<b>(1,753)</b>	<b>11,180</b>	<b>509,405</b>	<b>902,837</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(UNAUDITED)

Six months ended 31 March

2006

2005

*HK\$'000*

*HK\$'000*

Net cash used in operating activities	<b>(13,444)</b>	(1,312)
Net cash used in investing activities	<b>(40,768)</b>	(12,326)
Net cash from financing activities	<b>39,913</b>	8,561
	<hr/>	<hr/>
Decrease in cash and cash equivalents	<b>(14,299)</b>	(5,077)
	<hr/>	<hr/>
Cash and cash equivalents at beginning of period	<b>170,994</b>	182,507
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<b>156,695</b>	177,430
	<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>153,565</b>	174,343
Time deposits with original maturity of less than three months when acquired, pledged as security for trust receipt loans facilities	<b>3,130</b>	3,087
	<hr/>	<hr/>
	<b>156,695</b>	177,430
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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Principal accounting policies and basis of preparation

The condensed consolidated interim financial statements of the Group have 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 with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). These condensed consolidated financial statements are unaudited but have been reviewed by the Company's audit committee.

The basis of preparation and accounting policies adopted in preparing these condensed financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 30 September 2005 except for those described below.

The HKICPA has issued a number of new or revised Hong Kong Accounting Standards ("HKAS"), Hong Kong Financial Reporting Standards ("HKFRS") and Interpretations (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

In the current period, the Group has applied a number of new HKFRSs. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting periods are prepared and presented.

#### (a) *Owner-occupied leasehold interest in land*

The Group has adopted HKAS 17 which has resulted in a change in accounting policy relating to leasehold land. In previous years, leasehold land and buildings were accounted for at revalued amount less accumulated depreciation and accumulated impairment.

HKAS 17 "Leases" requires that land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to "Owner-occupied leasehold interest in land", which are carried at cost and amortised over the lease term on a straight-line basis and where there is impairment, the impairment is expensed in the profit and loss account. The change in accounting policy is adopted retrospectively.

#### (b) *Financial Instruments*

In the current period, the Group has adopted HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" to classify and measure its financial assets and financial liabilities other than debt and equity securities. HKAS 32 requires retrospective application. HKAS 39, generally not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis.

Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available for sale financial assets", "loan and receivables", or "held to maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)".

A financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flow expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests.

(c) *Share-based Payments*

The Group has adopted HKAS 2 "Share-based payments" which requires the fair value of share options be measured at the grant date and should be amortized and charged to the income statement over the options' life. Prior to the adoption of HKAS 2, the Group did not recognize the financial effect of the share options until they were exercised. As the share options of the Group were granted before 7 November 2002, the adoption of HKAS 2 has no material impact on the results for the current and prior accounting periods.

Pursuant to Rule 220(2) of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual, the financial statements of the Group, which have been prepared in accordance with SSAP and accounting principles generally accepted in Hong Kong, need to be reconciled to the International Accounting Standards ("IAS"). The Company had applied to the SGX-ST for, and the SGX-ST has on 16 June 2006 granted, a waiver to the Company from complying with the requirements of Rule 220(2) of the SGX-ST Listing Manual in respect of the financial statements of the Group for the period ended 31 March 2006. A reconciliation statement has not been prepared as both the audit committee and the board of directors of the Company are of the view that the application of the IAS would not have a material effect on the measurement and determination of the amounts of the Group's consolidated net assets at 31 March 2006 or its net profit from ordinary activities and cash flows for the period ended 31 March 2006.

Certain comparative figures have been reclassified to conform with the current period's presentation.

## 2. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which is subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the electronic components and parts segment consists of the manufacture and sale of electronic components and parts;
- (b) the consumer electronic products segment consists of the manufacture and sale of consumer electronic products; and
- (c) the trading segment consists of the trading of integrated circuits and computer components and accessories.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers.

(a) *Business segments*

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

*Group (HK\$'000)*

	Electronic components and parts		Consumer electronic products		Trading of integrated circuits and computer components and accessories		Consolidated	
	Six months ended 31 March		Six months ended 31 March		Six months ended 31 March		Six months ended 31 March	
	2006	2005	2006	2005	2006	2005	2006	2005
Segment revenue:								
Sales to external customers	<b>121,911</b>	104,973	<b>311,767</b>	332,331	<b>19,599</b>	20,290	<b>453,277</b>	457,594
Other revenue	<b>163</b>	143	<b>1,324</b>	211	<b>2</b>	–	<b>1,489</b>	354
Total	<b>122,074</b>	105,116	<b>313,091</b>	332,542	<b>19,601</b>	20,290	<b>454,766</b>	457,948
Segment results	<b>449</b>	2,285	<b>6,142</b>	13,026	<b>(764 )</b>	(830 )	<b>5,827</b>	14,481
Interest and unallocated other revenue and gains							<b>877</b>	407
Unallocated expenses							<b>(370)</b>	(299 )
Profit from operating activities							<b>6,334</b>	14,589
Finance costs							<b>(305)</b>	(13 )
Share of profit of a jointly-controlled entity							<b>185</b>	2,093
Profit before tax							<b>6,214</b>	16,669
Tax							<b>(906)</b>	(2,784 )
Net profit from ordinary activities attributable to shareholders							<b>5,308</b>	13,885



Group (HK\$'000)

	Electronic components and parts		Consumer electronic products		Trading of integrated circuits and computer components and accessories		Consolidated	
	31 March 2006	30 September 2005	31 March 2006	30 September 2005	31 March 2006	30 September 2005	31 March 2006	30 September 2005
	Segment assets	<b>310,347</b>	349,527	<b>512,712</b>	502,417	<b>22,241</b>	17,834	<b>845,300</b>
Interest in a jointly-controlled entity							<b>16,041</b>	15,901
Unallocated assets							<b>267,802</b>	237,492
Total assets							<b>1,129,143</b>	1,123,171
Segment liabilities	<b>18,377</b>	24,962	<b>103,420</b>	135,966	<b>19,017</b>	18,203	<b>140,814</b>	179,131
Unallocated liabilities							<b>85,492</b>	33,295
Total liabilities							<b>226,306</b>	212,426

Other segment information:

	Electronic components and parts		Consumer electronic products		Trading of integrated circuits and computer components and accessories		Consolidated	
	Six months ended 31 March 2006	2005	Six months ended 31 March 2006	2005	Six months ended 31 March 2006	2005	Six months ended 31 March 2006	2005
	Depreciation	<b>17,420</b>	15,708	<b>11,370</b>	10,426	-	-	<b>28,790</b>
Unallocated amounts							<b>293</b>	393
							<b>29,083</b>	26,527
Capital expenditure	<b>2,444</b>	-	<b>3,375</b>	11,385	-	-	<b>5,819</b>	11,385
Unallocated amounts							<b>34</b>	1,167
							<b>5,853</b>	12,552

(b) *Geographical segments*

The following table presents revenue and certain expenditure information for the Group's geographical segments.

*Group (HK\$'000)*

	Hong Kong		Mainland China		Other Asian countries		American countries		European countries		African countries		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	31 March		31 March		31 March		31 March		31 March		31 March		31 March	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Segment revenue:														
Sales to external customers	<u>75,463</u>	104,404	<u>70,824</u>	52,571	<u>75,804</u>	77,196	<u>106,072</u>	86,758	<u>77,921</u>	78,935	<u>47,193</u>	57,730	<u>453,277</u>	457,594
Other segment information:														
Capital expenditure	<u>34</u>	31	<u>5,819</u>	12,521	-	-	-	-	-	-	-	-	<u>5,853</u>	12,552

**3. Profit from operating activities**

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

	<b>Six months ended 31 March</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Cost of inventories sold	<b>427,717</b>	417,621
Depreciation	<b>29,083</b>	26,527
Amortization of owner-occupied leasehold interest in land	<b>322</b>	302
Provision for inventories (written back)	<b>(1,244)</b>	2,727
Staff costs (including directors' remuneration)	<b>90,214</b>	86,733

**4. Finance costs**

	<b>Six months ended 31 March</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on bank loans wholly repayable within five years	<b>305</b>	13

## 5. Tax

	Six months ended 31 March	
	2006 HK\$'000	2005 HK\$'000
Provision for tax in respect of profit for the period:		
Hong Kong	–	–
Mainland China	861	2,485
	<b>861</b>	2,485
Share of tax attributable to a jointly-controlled entity	45	299
	<b>906</b>	2,784

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China, based on existing legislation, interpretations and practices in respect thereof.

The Group and the Company did not have any significant unprovided deferred tax liabilities as at 31 March 2006 (2005: Nil).

## 6. Interim dividend

The Board of the Company did not recommend any interim dividend for the six months ended 31 March 2006 (2005: Nil).

## 7. Earnings per share

The calculation of the basic earnings per share for the six months ended 31 March 2006 is based on the unaudited consolidated net profit from ordinary activities attributable to shareholders of HK\$5,308,000 (2005 restated: HK\$13,885,000) and the weighted average number of 1,016,001,301 (2005: 1,016,001,301) ordinary shares in issue during the Period.

Diluted earnings per share for the current and last corresponding period have not been disclosed, as all share options outstanding during these periods had an anti-dilutive effect on the basic earnings per share for these periods.

## 8. Additions to fixed assets

During the Period, the Group spent approximately HK\$5,853,000 (2005: HK\$12,552,000) on additions to fixed assets to upgrade its manufacturing capabilities.

**9. Accounts receivable**

An aged analysis of the accounts receivable, based on invoice date, is as follows:

	<b>31 March 2006 HK\$'000</b>	30 September 2005 HK\$'000
Current to 3 months	<b>133,178</b>	147,532
4 to 6 months	<b>30,720</b>	28,261
7 to 12 months	<b>34,971</b>	12,866
Over 1 year	<b>24,060</b>	34,532
	<b>222,929</b>	223,191
<i>Less: Provision for doubtful debts</i>	<b>(40,459)</b>	(41,308)
	<b>182,470</b>	181,883

Payment terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 90 days of issuance, except for certain well-established customers, where the terms are extended to six months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

**10. Accounts payable**

An aged analysis of the accounts payable, based on invoice date, is as follows:

	<b>31 March 2006 HK\$'000</b>	30 September 2005 HK\$'000
Current to 3 months	<b>76,389</b>	122,147
4 to 6 months	<b>8,997</b>	1,498
7 to 12 months	<b>2,072</b>	450
Over 1 year	<b>2,340</b>	2,262
	<b>89,798</b>	126,357

### 11. Issued share capital

	<b>Number of shares issued</b>	<b>Par value HK\$'000</b>
As at 30 September 2005 and 31 March 2006	<u>1,016,001,301</u>	<u>101,600</u>

### 12. Related party transactions

During the Period, the Group sold finished goods amounting to HK\$5,581,000 (2005: HK\$5,632,000) to a company in which the spouse of Ms Wong Choi Kam (a director of the Company), is a director and controlling shareholder.

The sales to the related company were made according to the published prices and conditions offered to the major customers of the Group.

### 13. Contingent liabilities

Contingent liabilities of the Company at the balance sheet date were as follows:

	<b>31 March 2006 HK\$'000</b>	30 September 2005 HK\$'000
Guarantees executed by the Company in favour of banks for general banking facilities granted to subsidiaries	<u>151,000</u>	<u>151,000</u>



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Review of results and operation**

For the six months ended 31 March 2006, the Group recorded a consolidated turnover of HK\$453,277,000, representing a slight decrease of 0.9% compared with HK\$457,594,000 in corresponding period last year.

Profit before tax for the period was HK\$6,214,000. The Group's gross profit for the period was HK\$25,560,000 with gross profit margin of 5.6% compared with the previous 8.1%. The decrease in gross profit was due to the increase in cost of raw materials as a result of high oil price. Net profit for the period was HK\$5,308,000, a decrease of 61.8% from HK\$13,885,000 in corresponding period last year.

Turnover of liquid crystal displays ("LCD") recorded a significant growth of 60.9% to HK\$76,556,000 compared with HK\$47,576,000 in previous corresponding period. Sales of LCD represented 16.9% of the Group's turnover for the period. Growing applications and demand for LCD together with the aggressive efforts of our marketing team boost the sales of LCD. Sales of STN-LCD and TN-LCD products recorded significant growth. The rise in sales was supported by our sophisticated LCD production line in Mainland China.

Sales of the Group's core products, electronic calculators recorded a turnover of HK\$235,566,000. It represented 52% of the Group's turnover. During the period, the Group has continued to launch a wide range of electronic calculators with value-added functions to the market in order to maintain its market share and leading position.

For other consumer electronic products, sales of electronic watches and clocks amounted to HK\$55,510,000, rose 3.9% from previous corresponding period. It accounted for 12.2% of the Group's turnover for the period. Turnover of telephone products amounted to HK\$20,691,000, increased by 2.9% compared with the previous corresponding period. During the period, the launching of new models of water resistant electronic watches, multifunctional corded and cordless telephone got favourable response and demand from the market. These two categories of products generated stable income to the Group.

Turnover of trading of computer parts and components recorded HK\$16,168,000, a decrease of 6.8% from the corresponding period last year. The decrease in sales was due to price cutting strategy during the period for some obsolete memory products. This greatly reduced our stock level in these products and improved our cash flow.

Selling and distribution cost decreased by 37.8% to HK\$2,667,000. Administrative expenses decreased by 1.6% to HK\$20,084,000. Finance costs were HK\$305,000.

Continuous effort was placed on the recovery of some long outstanding debts from accounts receivables. The Group has executed tighter control on the credit terms provided to our customers.

### **Liquidity and financial resources**

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers in both Hong Kong and Mainland China. The Group maintains a strong financial position. As at 31 March 2006, the total shareholders' equity of the Group was approximately HK\$902,837,000, an decrease of 0.8% of that at 30 September 2005. The Group's cash and cash equivalents and bank deposits stood at HK\$156,695,000. The interest-bearing bank borrowings of the Group amounted to HK\$53,201,000. During the period, the Group did not use any financial instruments for any hedging purposes. The Group's gearing ratio, which was computed by dividing the current liabilities and long term debt by shareholders' equity, was 25.1%.

### **Capital structure**

No repurchases of shares were made and no share options were exercised, granted, cancelled or lapsed during the period, except as disclosed under the section headed "Share option scheme".

### **Pledge of assets**

The group's investment property, certain leasehold land and buildings of the Group and time deposits of HK\$3,130,000 of the Group, together with the corporate guarantees of the Company, are used to secure banking facilities of the Group. At 31 March 2006, such facilities were utilised to the extent of approximately HK\$12,292,000.

### **APPLICATIONS OF PROCEEDS OF SHARE OFFER**

The remaining balance of about HK\$137.3 million of the net proceeds raised from the share offer in 1999, has been allocated to the investment in the joint venture, Taiwan Communication (Fujian) Company Limited. As progress of the projects as implemented by Taiwan Communication (Fujian) Company Limited proceeded at a slower pace than anticipated, the Board is considering to allocate part of these proceeds to other investment opportunities. If any specific targets are identified, the Board will make announcement in accordance with the applicable rules.

### **EMPLOYEES AND REMUNERATION POLICIES**

The Group employs approximately 20,000 full time management, administrative, technical and production staff in Mainland China and Hong Kong. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and prevailing industry practice. The Group's directors and employees in Hong Kong joined the Mandatory Provident Fund Scheme. Other staff benefit includes options granted or to be granted under the share option scheme.

## **PROSPECTS**

The Group remains to be optimistic to the business in the second half of the year. The sales of LCD are expected to continue to boost. The Group is successful in capturing this growing demand LCD market. The sales of LCD products are supported by our sophisticated LCD production plant in Fujian, Mainland China. We will continue to streamline our STN-LCD production lines and upgrade our products to cope with the increasing demand in LCD products. Together with Chip-On-Glass (COG) LCD production technology which has developed to a mature stage, the Group is confident in generating growing revenue in the second half of the year.

The Group has also invested in research and development. Resources are used in development of new products such as digital products which include electronic dictionary and digital language learning machine, mobile phone and high-end calculators. The Group is expected to start the production of its own brand high-end calculator in the second half of the year.

Moreover, the Group is also negotiating with some well-established brands of consumer electronic products manufacturers like Casio and Citizen to provide sub-contracting services to them.

The production plant in Henan, Mainland China has started its operation during the period. The factory gets around 2,000 workers and is mainly for the production of consumer electronic products. The plant can improve the overall production capacity of consumer electronic products by 30%. This new plant enjoys lower labour cost as compared with the plant in Putian as supply of labour in Henan is abundant. The Group intends to continue to expand its facilities in Mainland China to support its business growth in the future.

The Group has also implemented cost saving policies through more effective material sourcing process. We have targeted to transition the plastic material sourcing to China. This policy can reduce our cost of raw materials as well as transportation cost. We hope that this can reduce our cost of manufacturing under the pressure of high material costs due to persistent high oil price.

During the period under review, the Group recorded an increase in sales to China and American countries. The Group is striving to seek new marketing opportunity in prospective markets such as PRC, Macau, America and Europe. Focusing on manufacturing value-added products, expanding our product range and effective cost control policies, we expect that we can improve our market competitiveness and attain growth in revenue in the second half of the year.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2006, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

	Number of shares held, capacity and nature of interest			Percentage
	Directly	Through	Total	of the
	beneficially	controlled		company's
	owned	corporation		issued
				share capital
<b>Executive directors:</b>				
Ms Wong King Ching, Helen and Ms Wong King Man	200,000	400,000,000 <i>(Note 1)</i>	400,200,000	39.4
<b>Non-executive directors:</b>				
Mr Wong Kim Seong	50,000,000	–	50,000,000	4.9
Ms Wong Choi Kam	–	100,000,000 <i>(Note 2)</i>	100,000,000	9.8
	<u>50,200,000</u>	<u>500,000,000</u>	<u>550,200,000</u>	<u>54.1</u>

### Notes:

- 400,000,000 shares are beneficially owned by Farnell Profits Limited, the entire issued share capital of which was previously held by the late Mr Wong Choi Fung ("**Mr Wong**") and currently forms part of the estate of the late Mr Wong. Ms Wong King Ching, Helen and Ms Wong King Man, directors of the Company, are beneficiaries of the said estate, whose interest in the shares of Farnell Profits Limited is not yet ascertained until completion of the administration of estate of the late Mr Wong. 200,000 shares are held and owned by Ms Wong King Ching, Helen.
- These shares were held by At worth Profits Limited, a company beneficially owned by Ms Wong Choi Kam.

The interests of the directors in the share options of the Company are separately disclosed in the section "Share Option Scheme" below.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to the eligible participants who contribute to the growth and development of the Group. The Scheme became effective on 25 February 2003 and unless otherwise terminated or amended, will remain in force for a period of 10 years from 25 February 2003.

The following share options were outstanding under the share option scheme of the Company during the Period:

Name or category of participant	Number of share options at 1 October 2005 and 31 March 2006	Date of grant of share options	Exercise period of share options	Exercise price of share options	Price of Company's share at date of grant of options
				HK\$	HK\$
<b>Directors</b>					
Ms Wong Choi Kam	6,000,000	25 October 1999	25 October 1999 to 24 October 2009	1.20	1.60
Ms Wong King Ching, Helen	1,500,000	25 October 1999	25 October 1999 to 24 October 2009	1.20	1.60
Mr Leung Chi Fai	1,050,000	25 October 1999	25 October 1999 to 24 October 2009	1.20	1.60
	8,550,000				
Other employees in aggregate	25,000,000	25 October 1999	25 October 1999 to 24 October 2009	1.20	1.60
	33,550,000				

No share options were granted, exercised, cancelled, or lapsed under the share option scheme of the Company during the Period.

Shareholders can refer to the 2005 annual report of the Company issued in January 2006 for further details of the share option scheme.



## **DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES**

Save as disclosed under the sections headed "Directors' interests and short positions in shares and underlying shares" and "Share option scheme" as disclosed in the immediately preceding section, at no time during the Period were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

## **SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

Save as disclosed under the sections headed "Directors' interests and short positions in shares and underlying shares" and "Share option scheme", no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

## **AUDIT COMMITTEE**

The Audit Committee, comprises the three independent non-executive directors of the Company, has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Group's financial statements for the period ended 31 March 2006 have been reviewed and approved by the Audit Committee, who are of the opinion that such statements comply with the applicable accounting standards, and the Listing Rules and legal requirements, and that adequate disclosures have been made.

## **REMUNERATION COMMITTEE**

The Remuneration Committee, comprises the three independent non-executive directors of the Company, the Chairman and Mr Leung Chi Fai, the Finance Director of the Company, is responsible for reviewing and evaluating the remuneration packages of the executive directors and making recommendations to the board of directors from time to time.

## **CORPORATE GOVERNANCE**

### **Code On Corporate Governance Practices**

The Company has complied with the code provisions as set out in the “Code On Corporate Governance Practices” contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) during the six months ended 31 March 2006, except for the following deviations:

#### **Code Provision A.2.1**

Under Code Provision A.2.1, the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual.

During the reporting period, Ms. Wong King Ching, Helen holds both positions of the Chairman and the Chief Executive Officer of the Company. The Board is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Ms. Wong to hold both positions as it helps to maintain the continuity of the Company’s policies and the stability of the Company’s operations.

#### **Code Provision A.4.1 and A.4.2**

Under Code Provision A.4.1, the non-executive directors should be appointed for a specific term, subject to re-election.

The independent non-executive directors of the Company are not appointed for specific terms. According to the Company’s Bye-Law 111(A), one third of the directors shall retire from the office by rotation at each annual general meeting and their appointments will be reviewed when they are due for re-election. In the opinion of the Board, this meets the same objectives and is no less exacting than those in the Code.

Under Code Provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company’s Bye-Law 111(A) states that the Chairman is not subject to retirement by rotation and shall not be counted in determining the number of directors to retire. In the opinion of the Board, the continuity of leadership role of the Chairman is important for the stability of the Company and is considered beneficial to the growth of the Company. The Board is of the view that the Chairman should not be subject to retirement by rotation at the present time.

#### **Model Code for Securities Transactions**

The Company has adopted the Model Code 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. Having made specific enquiry of all directors of the Company, the Company confirms that all directors of the Company have complied with required standard set out in the Model Code for the period under review.

## **BOARD OF DIRECTORS**

As at the date of this report, the Board of the Company comprises:

### *Executive Directors:*

Wong King Ching, Helen  
Wong King Man  
Leung Chi Fai

### *Independent non-executive Directors:*

So Day Wing  
Wong Kun Kim  
Kan Lai Kuen, Alice

### *Non-executive Directors:*

Wong Choi Kam  
Wong Chun Ying  
Wong Kim Seong

By Order of the Board  
**Sunway International Holdings Limited**  
**Wong King Ching, Helen**  
*Chairman*

Hong Kong  
23 June 2006