1. CORPORATE INFORMATION

The Company was incorporated in Bermuda under the Companies Act 1981 of Bermuda as an exempted company on 18 August 1998. On 6 August 1999, pursuant to a reorganisation scheme to rationalise the Group structure in preparation for the primary listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and the secondary listing on the main board of The Stock Exchange of Singapore Limited (the "Singapore Stock Exchange"), the Company became the holding company of the companies now comprising the Group (see note 13 for further details thereof) through the acquisition, for shares, of the entire issued share capital of Sunway International (BVI) Holdings Limited ("Sunway BVI"), a company incorporated in the British Virgin Islands, which was, at that time, the then holding company of the Group. The shares of the Company were listed on the main board of the Hong Kong Stock Exchange and the main board of the Singapore Stock Exchange on 3 September 1999.

During the year, the Company's principal activity was investment holding. The principal activities of the subsidiaries consisted of the design, development, manufacture and sale of a wide range of (1) electronic and related components and parts (comprising quartz crystals, liquid crystal displays, printed circuit boards and watch movements) and (2) consumer electronic products (comprising electronic calculators, electronic watches and clocks). They are also engaged in the trading of electronic and related components and parts, in particular, Russian-made integrated circuits. There were no changes in the nature of the Company's and the Group's principal activities during the year.

2. IMPACT OF REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following sets out the revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") which have been adopted for the first time in the preparation of the current year's consolidated financial statements, together with a summary of their major effects.

SSAP 1: Presentation of Financial Statements
SSAP 10: Accounting for Investments in Associates

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The formats of the profit and loss account and the balance sheets, as set out on pages 27, 29 and 32, respectively, have been revised in accordance with the SSAP, and a statement of recognised gains and losses, not previously required, is included on page 28. Additional disclosures as required are included in the supporting notes to the financial statements.

SSAP 10, which prescribes the accounting treatment for investments in associates, closely follows the previous SSAP 10, and accordingly has had no major impact on these financial statements. The terminology used and certain disclosures have been revised in line with the new requirements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment property and certain fixed assets, as further explained below.

Basis of presentation and consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended 30 September 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The comparative consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group reorganisation as mentioned above. Under this basis, the Company has been treated as the holding company of its subsidiaries prior to the date of their acquisition pursuant to the Group reorganisation on 6 August 1999. Accordingly, the consolidated results of the Group for the year ended 30 September 1999 include the results of the Company and its subsidiaries with effect from 1 October 1998, or since their respective dates of incorporation, where this is a shorter period, as if the existing Group structure had been in existence throughout the year ended 30 September 1999.

In the opinion of the directors, the comparative consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associate

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of its associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation

Fixed assets, other than investment property and construction in progress, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment property, are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land held in the People's Republic of China (the "PRC")	Over the period of land use rights
Leasehold land held in Hong Kong under medium term leases	Over the remaining lease terms
Buildings	2% – 5%
Leasehold improvements	10%
Plant, machinery and office equipment	10%
Moulds	10%
Motor vehicles	10%
Furniture and fixtures	10%

Construction in progress represents buildings, structures and plant and machinery under construction or installation and is stated at cost and is not depreciated. Cost comprises direct costs of construction, installation and testing, and interest charges on related borrowed funds during the periods of construction or installation. Construction in progress is transferred to fixed assets when completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset at the time of disposal, and is recognised in the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are clearly identifiable unlisted equity securities, which are intended to be held on a continuing basis for identified long term purposes documented at the time of acquisition or change of purpose. Such investments are stated at cost less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors, on an individual investment basis. Any reduction in carrying amounts is charged to the profit and loss account.

Where the circumstances and events which led to the write-downs or write-off of long term investments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

Convertible bonds

Convertible bonds are stated at the aggregate of the net proceeds from the issue less amounts subsequently converted into shares.

The net proceeds represent the consideration received on the issue of bonds after deduction of issuing costs. Issuing costs which comprise costs incurred directly in connection with the issue of bonds are amortised on a straight line basis over the term of the bonds which is the earliest date at which the bonds would be redeemed.

When bonds are converted into shares, the amount recognised in respect of the shares issued upon conversion is the amount at which the liability of the bond is stated as at the date of conversion less the related unamortised issuing costs attributable to the bonds converted.

Interest on convertible bonds is recognised as an expense in the period in which it is incurred.

Recognition of revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on the straight-line basis over the lease terms; and

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products of not exceeding five years, commencing from the date when the products are put into commercial production.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Borrowing costs

Borrowing costs are charged to the profit and loss account in the period in which they are incurred.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries denominated in foreign currencies are translated to Hong Kong dollars for inclusion in the Group's financial statements at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with in the exchange fluctuation reserve.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

4. TURNOVER

Turnover represents the invoiced value of goods sold, net of trade discounts and returns, after elimination of intra-Group transactions.

5. PROFIT FROM OPERATING ACTIVITIES

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

	2000 HK$'000	1999 HK$'000
Cost of inventories sold	**881,716**	827,516
Depreciation:		
Owned fixed assets	**30,185**	18,728
Leased fixed assets	**10**	61
Staff costs (including directors' remuneration – *note 6*)	**130,254**	88,882
Operating lease rentals on land and buildings	**578**	564
Auditors' remuneration	**880**	600
Provision for doubtful debts	**15,418**	5,179
Provision for inventories	**31,818**	–
Research and development costs written off	**532**	273
Revaluation deficit on fixed assets	**600**	6,182
Exchange losses, net	**1,429**	964
Loss/(gain) on disposal of fixed assets	**(41)**	35
Interest income	**(1,906)**	(827)
Net rental income	**(205)**	(340)

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

	2000 HK$'000	1999 HK$'000
Fees	**880**	120
Basic salaries and other benefits in kind	**5,604**	3,648
	6,484	3,768

The fees include HK$880,000 (1999: HK$120,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (1999: Nil).

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

(a) Directors' remuneration *(continued)*

The number of the directors whose remuneration fell within the designated bands is set out below:

	Number of directors	
	2000	1999
Nil – HK$1,000,000	**8**	10
HK$1,000,001 – HK$1,500,000	**2**	–
HK$1,500,001 – HK$2,000,000	**1**	–
	11	10

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

In relation to the services rendered during the year, on 23 October 1999, the Company granted a total of 15,000,000 options to the executive directors of the Company to subscribe for a total of 15,000,000 ordinary shares of the Company at an exercise price of HK$1.20 per share on or before 24 October 2009. In the absence of a readily available market value of the share options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the share options granted, and accordingly no value has been included in the remuneration above in relation thereto.

(b) Employees' emoluments

The five highest paid employees during the year included four (1999: four) directors, details of whose remuneration are set out above. The details of the remuneration of the remaining one (1999: one) non-director, highest paid employee are as follows:

	2000	1999
	HK$'000	HK$'000
Basic salaries and other benefits in kind	**932**	650

7. FINANCE COSTS

	Group	
	2000	1999
	HK$'000	HK$'000
Interest on bank facilities and on other loans wholly repayable within five years	**8,741**	7,458
Interest on convertible bonds	**813**	–
Interest on finance leases	**14**	23
Interest on staff loans	**–**	231
	9,568	7,712

8. TAX

Tax in the consolidated profit and loss account represents:

	Group	
	2000	1999
	HK$'000	HK$'000
Provision for tax in respect of profit for the year:		
Hong Kong	**1,877**	4,630
Overseas	**4,722**	39,341
Prior years' overprovisions – Hong Kong	**(309)**	(17,544)
Deferred tax	**281**	–
	6,571	26,427

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Provisions for tax of profits assessable in the PRC have been calculated at the rates of tax prevailing in the PRC, based on existing legislation, interpretations and practices in respect thereof.

No provision for tax has been made for the associate because it did not generate any assessable profits during the year.

8. TAX *(continued)*

In accordance with the applicable enterprise income tax law of the PRC, the Group's operating subsidiary, Putian Kangarway Industrial Co. Ltd. ("Putian Kangarway"), which was dissolved according to Chapter VII, Company Merger and Division, of the PRC Company Law immediately after its merger with Xinwei Electronic Industrial Co. Ltd., Fujian ("Fujian Xinwei") on 3 October 1996, was exempt from income tax for its first three profitable years of operations from 1 January 1992 and was entitled to a 50% relief on the income tax that would otherwise be charged for the succeeding four years. In April 1992, an additional tax concession was granted by the local municipal tax bureau under which the assessable profit attributable to the second phase of the capital investment was exempt for a period of three years from 1 January 1994 and was entitled to a 50% relief on the income tax that would otherwise be charged for the succeeding four years. In December 1994, a further additional tax concession was granted by the local municipal tax bureau under which the assessable profit attributable to the third phase of the capital investment was exempt for a period of three years from 1 January 1995 and was entitled to a 50% relief on the income tax that would otherwise be charged for the succeeding four years. The assessable profit of Fujian Xinwei which was attributable to the continuing operations and businesses of Putian Kangarway is entitled to such tax concessions. Any assessable profit arising from the capital injected subsequent to the merger will be entitled to exemption from income tax for the first two profitable years of operations and 50% relief on income tax that would otherwise be charged for the succeeding three years. In August 1999, the fourth phase, which was also the final phase, of the capital investment was injected to Fujian Xinwei. Therefore, the assessable profit attributable to the fourth phase of the capital investment is exempt for a period of two years from 1 October 1999 and was entitled to a 50% relief on the income tax that would otherwise be charged for the succeeding three years.

As a result, a provision for income tax has been made at the rate of 12%, which is determined after a 50% relief for the assessable profit attributable to Fujian Xinwei for the period from 1 October 1998 to 31 December 1998 in respect of the first phase of capital investment and for the period from 1 October 1998 to 30 September 2000 in respect of the second phase and the third phase of the capital investment. A tax rate of 24% has been used for the period from 1 January 1999 to 30 September 2000 in respect of the first phase of the capital investment because the 50% relief for this phase expired on 31 December 1998. No provision for income tax has been made for the assessable profit attributable to Fujian Xinwei for the year ended 30 September 2000 in respect of the fourth phase of the capital investment.

The provision for deferred tax has been made in respect of accelerated capital allowances to the extent that a liability is expected to crystallise in the foreseeable future. There were no significant potential deferred tax liabilities for the Group and the Company for which provision has not been made as at 30 September 2000.

9. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK$7,838,000 (1999: net profit of HK$299,624,000).

10. DIVIDENDS

	2000 HK$'000	1999 HK$'000
Interim dividend	–	55,000
Proposed final dividend	–	20,009
	–	75,009

The interim dividend was paid in the prior year by a subsidiary of the Group to its then shareholders prior to the Group reorganisation as set out in note 1.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$101,236,000 (1999: HK$270,780,000) and the weighted average of 1,000,526,622 (1999: 770,833,333) shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders plus interest expense on convertible bonds of HK$102,049,000 and the weighted average of 1,024,413,371 shares in issue, which represents the weighted average number of 1,000,526,622 shares in issue during the year, plus the weighted average number of 9,377,386 shares assumed to be issued at no consideration on the deemed exercise of all options during the year; and the weighted average number of 14,509,363 shares assumed to have been issued at no consideration on the deemed conversion of all convertible bonds during the year.

Diluted earnings per share for the prior year has not been calculated because no diluting events existed during the prior year.

12. FIXED ASSETS

Group

	Investment property HK$'000	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant, machinery and office equipment HK$'000	Moulds HK$'000	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation:									
At beginning of year	4,100	114,154	2,205	190,256	15,564	10,510	880	42,782	380,451
Additions	–	5,661	461	31,953	1,124	1,840	–	45,407	86,446
Transfers	–	23,435	17,341	1,303	–	–	–	(42,079)	–
Disposals	–	–	–	(1,092)	–	(183)	–	–	(1,275)
Revaluation	(600)	–	–	–	–	–	–	–	(600)
At 30 September 2000	3,500	143,250	20,007	222,420	16,688	12,167	880	46,110	465,022
Accumulated depreciation:									
At beginning of year	–	–	963	41,174	7,979	5,235	430	–	55,781
Provided during the year	–	5,223	1,285	20,800	1,622	1,178	87	–	30,195
Disposals	–	–	–	–	–	(183)	–	–	(183)
At 30 September 2000	–	5,223	2,248	61,974	9,601	6,230	517	–	85,793
Net book value:									
At 30 September 2000	3,500	138,027	17,759	160,446	7,087	5,937	363	46,110	379,229
At 30 September 1999	4,100	114,154	1,242	149,082	7,585	5,275	450	42,782	324,670
An analysis of cost or valuation:									
At cost	–	29,096	20,007	33,256	16,688	1,840	880	46,110	147,877
At valuation	3,500	114,154	–	189,164	–	10,327	–	–	317,145
	3,500	143,250	20,007	222,420	16,688	12,167	880	46,110	465,022

The investment property is situated in Hong Kong and is held under a medium term lease. The gross rental income earned from the investment property during the year amounted to HK$205,000 (1999: HK$340,000).

12. FIXED ASSETS *(continued)*

The leasehold land and buildings which are stated at cost or valuation are held under the following lease terms:

	Group HK$'000
Hong Kong, held under medium term leases	13,631
PRC other than Hong Kong, held under medium term land use rights	129,619
	143,250

The Group's investment property was revalued at 30 September 2000 by Chesterton Petty Limited ("Chesterton"), an independent firm of professional valuers, on an open market value basis based on existing use. A revaluation deficit of HK$600,000 (1999: HK$4,229,000) resulting from the valuation was charged to the profit and loss account.

The Group's leasehold land and buildings were revalued at 30 September 1999 by Chesterton on an open market value basis based on existing use. The Group's plant, machinery and office equipment, and motor vehicles were revalued at 30 September 1999 by Chesterton, on a depreciated replacement cost basis. A revaluation deficit of HK$1,953,000 resulting from the valuation was charged to the profit and loss account and a revaluation surplus of HK$27,612,000 was credited to the revaluation reserve in the prior year. No professional valuation of such assets was made as at 30 September 2000 because the directors are of the opinion that the value of such assets at 30 September 2000 was not materially different from their carrying amount at 30 September 2000 and that a further professional valuation would involve expense out of proportion to the value to the shareholders of the Company.

Had the Group's leasehold land and buildings, plant, machinery and office equipment, and motor vehicles been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK$116,724,000 (1999: HK$92,389,000), HK$158,817,000 (1999: HK$147,295,000) and HK$2,101,000 (1999: HK$3,168,000), respectively.

Included in the total amount of fixed assets at 30 September 2000 is an asset held under finance lease with a net book value of HK$412,000 (1999: HK$427,000) and the depreciation charges for the year in respect of such asset amounted to HK$10,000 (1999: HK$61,000).

The investment property, certain leasehold land and buildings, and plant and machinery and certain time deposits of the Group, together with the corporate guarantees of certain related companies and the Company, are used to secure banking facilities of the Group (note 19). At 30 September 2000, such facilities were utilised to the extent of approximately HK$158,933,000 (1999: HK$109,212,000).

13. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK$'000	HK$'000
Unlisted shares, at cost	**118,577**	118,577
Due from subsidiaries	**619,488**	474,159
	738,065	592,736

The amounts due from subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered paid-up capital	Percentage of equity attributable to the Company *Direct*	*Indirect*	Principal activities
Sunway International (BVI) Holdings Limited	The British Virgin Islands	US$50,000	100%	–	Investment holding
Sungo Holding Company Limited	Hong Kong	Ordinary HK$3 *Non-voting deferred HK$6,500,000	–	100%	Trading of electronic products
Guidy International Limited	Hong Kong	Ordinary HK$3 *Non-voting deferred HK$6,500	–	100%	Trading of electronic products
Xinwei Electronic Industrial Co. Ltd., Fujian	The PRC	HK$ 152,000,000	–	100%	Manufacture and trading of electronic products
Sunway Information Technology Company Limited	The British Virgin Islands	US$1	–	100%	Investment holding

13. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered paid-up capital	Percentage of equity attributable to the Company *Direct*	*Indirect*	Principal activities
Wiseway Profits Limited	The British Virgin Islands	US$10,000	–	100%	Dormant
Rawlinson Profits Limited	The British Virgin Islands	US$10,000	–	100%	Dormant
Hong Kong Sunway Electronics Company Limited	Hong Kong	Ordinary HK$3 *Non-voting deferred HK$10,000	–	100%	Dormant
Hitchin Venture Limited	The British Virgin Islands	US$10	–	100%	Dormant

* *The holders of non-voting deferred shares are not entitled to any dividend, have no right to vote at general meetings, and carry the right to receive the nominal amount paid-up or credited as paid-up on the non-voting deferred shares in a return of capital on liquidation after the holders of ordinary shares have received the sum of HK$1,000,000,000 per ordinary share.*

14. INTEREST IN AN ASSOCIATE

	Group 2000 HK$'000	1999 HK$'000
Share of net assets	5,376	–
Due from an associate	4,229	–
	9,605	–

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

14. INTEREST IN AN ASSOCIATE *(continued)*

Particulars of the associate are as follows:

Name	Place of registration	Percentage of equity attributable to the Group	Principal activities
Taiwan Communication (Fujian) Company Limited	The PRC	40%	Manufacture and trading of telecommunication products

The registered capital of Taiwan Communication (Fujian) Company Limited is US$5,000,000. At 30 September 2000, the Group had paid an initial capital injection of US$1,000,000 (equivalent to approximately HK$7,750,000), being half of the total contracted investment cost, to Taiwan Communication (Fujian) Company Limited. The remaining capital contribution of US$1,000,000 was paid up subsequent to year end on 3 November 2000.

15. DEPOSIT FOR LONG TERM INVESTMENT

This represents a 20% deposit for the acquisition of 35,256 equity shares of Angstrem Joint Stock Company ("Angstrem"), representing 5.4% of its issued share capital. Angstrem is registered under the laws of Russian Federation as open joint stock company and is principally engaged in manufacture and sale of integrated circuits. The investment is intended to be held for long term continuing purposes.

16. INVENTORIES

	Group	
	2000	1999
	HK$'000	HK$'000
Raw materials	**231,067**	167,374
Work in progress	**35,671**	30,525
Finished goods	**76,484**	65,887
	343,222	263,786
Less: Provision for obsolescence	**(75,059)**	(43,241)
	268,163	220,545

The carrying amount of inventories carried at net realisable value included in the above is HK$6,724,000 (1999: Nil).

17. ACCOUNTS RECEIVABLE

The aged analysis of accounts receivable is as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Less than 3 months	**174,015**	163,035
4 – 6 months	**69,863**	6,273
6 – 12 months	**7,713**	8,824
Over 1 year	**13,879**	6,781
	265,470	184,913
Less: Provision for doubtful debts	**(26,114)**	(14,467)
	239,356	170,446

Credit terms

Payment terms with customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 60 days of issuance, except for certain well established customers, where the terms are extended to six months. Each customer has a maximum credit limit.

18. DUE FROM RELATED COMPANIES

Particulars of the balances due from related companies disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

Name	30 September 2000 HK$'000	Maximum outstanding amount during the year HK$'000	1 October 1999 HK$'000
Scientek Enterprise (Hong Kong) Limited	**2,551**	3,927	2,282
Union Venus Limited	**–**	3,860	3,860
	2,551		6,142

Scientek Enterprise (Hong Kong) Limited is controlled by the spouse of Ms. Wong Choi Kam, a director of the Group. The spouse of Ms. Wong Choi Kam resigned as a director of Union Venus Limited on 21 December 1999 and has no longer exercised any control on Union Venus Limited since that date.

The balances due from related companies are unsecured, interest-free, and have no fixed terms of repayment.

19. BANK FACILITIES, SECURED

	Group	
	2000	1999
	HK$'000	HK$'000
Bank overdrafts	**–**	393
Short term bank loans	**142,773**	103,857
Trust receipt loans	**16,160**	4,962
	158,933	109,212

The bank overdrafts, short term bank loans and trust receipt loans are secured by fixed deposits amounting to HK$41,877,000 (1999: Nil), certain properties and plant and machinery held by the Group (note 12), the corporate guarantees of certain related companies and the Company.

20. ACCOUNTS PAYABLE

The aged analysis of accounts payable is as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Less than 3 months	**34,403**	32,758
4 – 6 months	**11,312**	1,087
6 – 12 months	**4,356**	1,229
Over 1 year	**1,348**	1,756
	51,419	36,830

21. FINANCE LEASE PAYABLE

There was commitment under finance lease at the balance sheet date as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Amount payable:		
Within one year	**118**	119
In the second year	**118**	–
In the third to fifth years, inclusive	**216**	–
Total minimum lease payments	**452**	119
Less: Future finance charges	**87**	5
Total net finance lease payable	**365**	114
Less: Portion classified as current liability	**80**	114
Long term portion of finance lease payable	**285**	–

22. CONVERTIBLE BONDS

	2000 HK$'000	1999 HK$'000
Convertible bonds:		
Issued during the year	77,500	–
Converted during the year	(2,325)	–
	75,175	–

US$10,000,000 3% convertible bonds due in 2003 (the "CB 2003") were issued on 25 May 2000 by the Company. The CB 2003 were issued at 100% of their principal amount and bear interest at a rate of 3% per annum payable semi-annually in arrears on 30 June and 30 December of each year. The CB 2003 carry a right to be converted into fully paid ordinary shares with a par value of HK$0.10 each of the Company (the "Shares") at the option of the bondholders at a conversion price of either (i) HK$2.1087 per Share subject to adjustment, being 125% of the average closing prices per Share for the 10 dealing days immediately prior to the closing date of the CB 2003, or (ii) 95% of the average of any three closing prices per Share during the 30 dealing days immediately prior to the date of conversion as selected by the relevant bondholders (the "Variable Conversion Price"), subject to a minimum conversion price of HK$0.10 per Share.

Unless previously redeemed, purchased and cancelled, or converted, the CB 2003 would be redeemed at their principal amount plus accrued interest on 25 May 2003. During the 60 calendar days after the conversion of all of the CB 2003, the Company also has an option to issue up to a further US$10,000,000 in aggregate principal amount of 3% convertible bonds due in 2003 on substantially the same terms as the CB 2003.

During the year, 594,919 and 1,153,716 Shares were alloted and issued at a subscription price of HK$1.3110 per Share and HK$1.3521 per Share, respectively, upon the conversion of the CB 2003 with an aggregate principal amount of US$300,000 (approximately HK$2,325,000) by certain bondholders.

Subsequent to the balance sheet date, in November 2000, 1,383,370 Shares were alloted and issued at a subscription price of HK$0.5637 per Share upon the conversion of the CB 2003 with a principal amount of US$100,000 by certain bondholders.

Up to the date of the financial statements, the CB 2003 had not been fully converted. Assuming full conversion of the CB 2003 into the Shares of the Company at the Variable Conversion Price based on the fair value of the Shares at the balance sheet date, the Company would have issued 57,341,724 new Shares, representing 5.4% of the then existing issued Shares of the Company as enlarged by such new Shares at the balance sheet date.

23. SHARE CAPITAL

	2000 HK$'000	1999 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000**	1,000,000
Issued and fully paid:		
1,002,198,635 (1999: 1,000,000,000) ordinary shares of HK$0.10 each	**100,220**	100,000

During the year, the following movements in share capital were recorded:

(a) During the year, 450,000 share options were exercised at the subscription price of HK$1.20 each for a total cash consideration of HK$540,000. The excess of the proceeds over the par value of the ordinary shares issued of approximately HK$495,000 was credited to the share premium account. Details of the share options are set out below.

(b) During the year, 594,919 and 1,153,716 ordinary shares of HK$0.10 each of the Company were issued at a subscription price of HK$1.3110 per share and HK$1.3521 per share, respectively, upon the conversion of the CB 2003 with a principal amount of US$100,000 and US$200,000, respectively, by certain bondholders.

A summary of the above movements in the issued share capital of the Company is as follows:

	Number of shares issued '000	Par value HK$'000
At beginning of year	1,000,000	100,000
Share options exercised *(a)*	450	45
Conversion of convertible bonds *(b)*	1,749	175
At 30 September 2000	**1,002,199**	**100,220**

Share options

Pursuant to the share option scheme adopted on 6 August 1999, the board of directors may, on or before 5 August 2009, at its discretion invite any full-time employees, including directors, of the Company or any of its subsidiaries to take up options to subscribe for shares of the Company. The subscription price is the higher of 80% of the average of the closing prices of the shares on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of the offer of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed in nominal amount 25% of the issued share capital of the Company which has been duly allotted and issued.

23. SHARE CAPITAL *(continued)*

Share options *(continued)*

During the year, 40,000,000 share options were granted to certain directors and employees of the Group for subscription for the ordinary shares of the Company at HK$1.20 per share exercisable up to 24 October 2009. A total of 450,000 share options were exercised during the year and the Company had 39,550,000 outstanding share options at the balance sheet date.

24. RESERVES

Group

	Share premium account HK$'000	Contributed surplus HK$'000	Revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 October 1998	–	56,471	–	(6,049)	143,136	193,558
Issue of shares to public	290,000	–	–	–	–	290,000
Share issue expenses	(45,578)	–	–	–	–	(45,578)
Capitalisation issue of shares	(74,800)	–	–	–	–	(74,800)
Revaluation of fixed assets *(note 12)*	–	–	27,612	–	–	27,612
Net profit for the year	–	–	–	–	270,780	270,780
Dividends *(note 10)*	–	–	–	–	(75,009)	(75,009)
At 30 September 1999 and 1 October 1999	169,622	56,471	27,612	(6,049)	338,907	586,563
Arising on exercise of share options *(note 23)*	495	–	–	–	–	495
Arising on conversion of convertible bonds *(note 23)*	2,150	–	–	–	–	2,150
Net profit for the year	–	–	–	–	101,236	101,236
At 30 September 2000	**172,267**	**56,471**	**27,612**	**(6,049)**	**440,143**	**690,444**
Reserves retained by:						
Company and subsidiaries	172,267	56,471	27,612	(6,049)	442,517	692,818
Associate	–	–	–	–	(2,374)	(2,374)
At 30 September 2000	**172,267**	**56,471**	**27,612**	**(6,049)**	**440,143**	**690,444**

24. RESERVES *(continued)*

Company

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
Arising on acquisition of Sunway BVI	–	118,477	–	118,477
Applied in payment of 1,000,000 shares allotted nil paid on incorporation	–	(100)	–	(100)
Issue of shares to public	290,000	–	–	290,000
Share issue expenses	(45,578)	–	–	(45,578)
Capitalisation issue of shares	(74,800)	–	–	(74,800)
Net profit for the year	–	–	299,624	299,624
Dividends *(note 10)*	–	–	(20,009)	(20,009)
At 30 September 1999 and 1 October 1999	169,622	118,377	279,615	567,614
Arising on exercise of share options *(note 23)*	495	–	–	495
Arising on conversion of convertible bonds *(note 23)*	2,150	–	–	2,150
Net profit for the year	–	–	(7,838)	(7,838)
At 30 September 2000	**172,267**	**118,377**	**271,777**	**562,421**

The contributed surplus of the Group represents the difference between the aggregate of the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation set out in note 1, over the nominal value of the share capital of the Company issued in exchange therefor and issued on incorporation.

The contributed surplus of the Company arose as a result of the same Group reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired over the aggregate of the nominal value of the Company's shares issued in exchange therefor.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2000 HK$'000	1999 HK$'000
Profit from operating activities	119,749	304,919
Depreciation	30,195	18,789
Interest income	(1,906)	(827)
Loss/(gain) on disposal of fixed assets	(41)	35
Revaluation deficit on fixed assets	600	6,182
Increase in inventories	(47,618)	(86,621)
Increase in accounts receivable	(68,910)	(45,231)
Increase in prepayments, deposits and other receivables	(12,503)	(46,571)
Decrease in amount due from related companies	3,591	380
Increase/(decrease) in accounts payable	14,589	(19,199)
Increase in accrued liabilities and other payables	5,384	13,214
Increase in trust receipt loans with maturity of over three months, secured	5,414	4,962
Decrease in amount due to a director	–	(80,572)
Net cash inflow from operating activities	48,544	69,460

(b) Analysis of changes in financing during the year

	Share capital and share premium account HK$'000	Convertible bonds HK$'000	Short term bank loans, secured HK$'000	Obligations under finance lease HK$'000
At 1 October 1998	200	–	114,750	270
Net cash inflow/(outflow) from financing	269,422	–	(10,893)	(156)
At 30 September 1999 and 1 October 1999	269,622	–	103,857	114
Net cash inflow/(outflow) from financing	540	77,500	38,916	(129)
Inception of finance lease contract	–	–	–	380
Conversion of convertible bonds	2,325	(2,325)	–	–
At 30 September 2000	272,487	75,175	142,773	365

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of an asset with a capital value at the inception of the lease of HK$380,000 (1999: Nil).

26. COMMITMENTS

	Group	
	2000	1999
	HK$'000	HK$'000
Capital commitments contracted for in respect of:		
Acquisition of fixed assets and construction works	**29,470**	28,437
Capital contribution to an associate established in the PRC *(note 14)*	**7,750**	15,500
Capital contribution to a long term investment in a Russian company	**9,300**	11,625
	46,520	55,562

The capital contribution to an associate established in the PRC of HK$7,750,000 was paid up subsequent to year end on 3 November 2000.

	Group	
	2000	1999
	HK$'000	HK$'000
Non-cancellable operating lease commitments for land and buildings during the following year for leases expiring:		
Within one year	**64**	47
In the second to fifth years, inclusive	**433**	406
	497	453

The Company did not have any significant commitments at the balance sheet date.

27. RELATED PARTY TRANSACTIONS

During the year, the Group had transactions with certain companies of which the late Mr. Wong Choi Fung (a former director of the Company) and the spouse of Ms. Wong Choi Kam (a director of the Company), were also directors and controlling shareholders as set out below.

		Group	
		2000	1999
	Notes	**HK$'000**	HK$'000
Sales to related companies	*(i)*	15,440	16,589
Shipping terminal service fee paid to a related company	*(ii)*	–	194

Notes:

(i) The sales to related companies are made according to the published prices and conditions offered to the major customers of the Group.

(ii) The shipping terminal service fee paid to the related company was incurred in accordance with the same rate charged to other customers of the related company.

28. COMPARATIVE AMOUNTS

As explained in note 2 to the financial statements, due to the adoption of revised SSAPs during the current year, the presentation of the profit and loss account, the balance sheets and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 22 January 2001.