



SUNWAY INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 00058

Interim Report 2014

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 2014 (the "period"), together with the comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS

		(UNAUDITED)	
		Six months ended 31 March	
	Notes	2014 HK\$'000	2013 HK\$'000
Revenue	3	349,824	377,689
Cost of sales		(416,302)	(406,853)
Gross loss		(66,478)	(29,164)
Other income		15,640	7,214
Selling and distribution expenses		(3,990)	(5,348)
Administrative expenses		(44,141)	(45,300)
Other operating expenses		(5,550)	(110)
Finance costs	4	(12,214)	(16,871)
Share of gain/(loss) of a jointly-controlled entity		13	(628)
Loss before tax	5	(116,720)	(90,207)
Income tax expenses	6	(2,887)	(3,123)
Loss for the period attributable to equity holders of the parent		(119,607)	(93,330)
Interim dividend	7	Nil	Nil
Loss per share attributable to ordinary equity holders of the parent	8		
Basic		(12 cents)	(9 cents)
Diluted		(11 cents)	(9 cents)

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(UNAUDITED)
Six months ended 31 March

	2014 HK\$'000	2013 HK\$'000
Loss for the period	(119,607)	(93,330)
Other comprehensive (loss)/income: Items may be reclassified to the consolidated income statement in subsequent periods:		
Exchange differences on translation of foreign operations	(570)	6,372
Change in fair value of available-for-sale investment	(43)	797
Loss on disposal of available-for-sale investment	255	—
Other comprehensive (loss)/income for the period, net of tax	(358)	7,169
Total comprehensive loss for the period attributable to equity holders of the parent	(119,965)	(86,161)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(UNAUDITED) 31 March 2014 HK\$'000	(AUDITED) 30 September 2013 HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		394,795	430,152
Investment properties		91,266	91,432
Prepaid land lease payments		72,201	67,281
Interest in a jointly-controlled entity		2,080	2,072
Available-for-sale investment		1,100	2,373
Deposits paid for acquisition of property, plant and equipment		729	731
		<hr/>	<hr/>
Total non-current assets		562,171	594,041
CURRENT ASSETS			
Inventories		198,438	251,140
Trade receivables	10	194,926	205,478
Prepayments, deposits and other receivables		26,766	21,113
Cash and cash equivalents		106,618	148,055
		<hr/>	<hr/>
Total current assets		526,748	625,786
CURRENT LIABILITIES			
Trade payables	11	110,181	121,330
Other payables and accruals		69,173	69,484
Due to a director		41,310	5,908
Interest-bearing bank borrowings		443,623	325,535
Tax payable		29,717	29,786
		<hr/>	<hr/>
Total current liabilities		694,004	552,043
		<hr/>	<hr/>
NET CURRENT (LIABILITIES)/ASSETS		(167,256)	73,743
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		394,915	667,784
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

		(UNAUDITED)	(AUDITED)
		31 March	30 September
		2014	2013
	Notes	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		56,176	56,245
Provision for long service payment		612	689
Other borrowing		–	154,377
		<hr/>	<hr/>
Total non-current liabilities		56,788	211,311
		<hr/>	<hr/>
NET ASSETS			
		338,127	456,473
		<hr/>	<hr/>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital	12	101,600	101,600
Reserves		236,527	354,873
		<hr/>	<hr/>
Total equity		338,127	456,473
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

For the six months ended 31 March 2014

	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Asset revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	PRC statutory reserves HK\$'000	Available-for-sale investment reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 October 2013	101,600	177,325	56,471	509	6,925	161,041	251,916	12,928	2,518	(314,760)	456,473
Loss for the period	-	-	-	-	-	-	-	-	-	(119,607)	(119,607)
Other comprehensive loss for the period:											
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(570)	-	-	-	(570)
Change in fair value of available-for-sale investment	-	-	-	-	-	-	-	-	(43)	-	(43)
Loss on disposal of available-for-sale investment	-	-	-	-	-	-	-	-	255	-	255
Total other comprehensive income for the period	-	-	-	-	-	-	(570)	-	212	-	(358)
Total comprehensive loss for the period	-	-	-	-	-	-	(570)	-	212	(119,607)	(119,965)
Recognition of equity-settled share-based payments	-	-	-	-	1,619	-	-	-	-	-	1,619
Share options lapsed	-	-	-	-	(336)	-	-	-	-	336	-
At 31 March 2014	101,600	177,325	56,471	509	8,208	161,041	251,346	12,928	2,730	(434,031)	338,127

For the six months ended 31 March 2013

	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Asset revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	PRC statutory reserves HK\$'000	Available-for-sale investment reserve HK\$'000	Retained profits/(Accumulated losses) HK\$'000	Total HK\$'000
At 1 October 2012	101,600	177,325	56,471	509	5,951	116,801	234,222	12,928	272	(102,449)	603,630
Loss for the period	-	-	-	-	-	-	-	-	-	(93,330)	(93,330)
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	-	-	-	-	-	-	6,372	-	-	-	6,372
Change in fair value of available-for-sale investment	-	-	-	-	-	-	-	-	797	-	797
Total other comprehensive income for the period	-	-	-	-	-	-	6,372	-	797	-	7,169
Total comprehensive loss for the period	-	-	-	-	-	-	6,372	-	797	(93,330)	(86,161)
Recognition of equity-settled share-based payments	-	-	-	-	1,986	-	-	-	-	-	1,986
At 31 March 2013	101,600	177,325	56,471	509	7,937	116,801	240,594	12,928	1,069	(195,779)	519,455

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	(UNAUDITED)	
	Six months ended 31 March	
	2014	2013
	HK\$'000	HK\$'000
Net cash generated from/(used in) operating activities	9,669	(124,361)
Net cash (used in)/generated from investing activities	(15,329)	106,026
Net cash (used in)/generated from financing activities	(36,289)	5,490
Net decrease in cash and cash equivalents	(41,949)	(12,845)
Cash and cash equivalents at the beginning of the period	148,055	270,573
Effect of foreign exchange rate changes, net	512	7,050
Cash and cash equivalents at the end of the period	106,618	264,778
Analysis of balances of cash and cash equivalents		
Cash and bank balances	106,618	264,778

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Principal Accounting Policies

1.1 *Basis of preparation*

The unaudited condensed consolidated interim financial statements for the six months ended 31 March 2014 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by The Hong Kong Institution of Certified Public Accountants (“HKICPA”).

The accounting policies used in preparation of these financial statements are consistent with those adopted in the Group’s Annual Report for the year ended 30 September 2013, except for adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include HKASs and Interpretations) which are first effective for the current accounting period.

The Group had net current liabilities of approximately HK\$167,256,000 as at 31 March 2014 of which current liabilities of approximately HK\$443,623,000 were attributable to bank borrowings due within one year. Taking into account the financial resources of the Group, including the Group unutilized banking facilities, the Group’s ability to renew or refinance the banking facilities upon maturity and financial support from the ultimate major shareholder of the Company, the directors of the Company are of the opinion that the Group has sufficient working capital to meet in full its financial obligations they fall due for at least the next twelve months from the end of the reporting period and accordingly, these financial statements have been prepared on a going concern basis.

1.2 *Application of new and revised HKFRSs*

In current period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA:

HKFRS 1 Amendment	Government Loans
HKFRS 7 Amendment	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 10, HKFRS 11 and HKFRS 12 Amendment	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine
Annual Improvements Project	Annual Improvements 2009–2011 Cycle

The application of other new and revised HKFRS in the current period has no material effect on the amount reported in these financial statements and/or disclosures set out in these financial statements.

1. Basis of Preparation and Principal Accounting Policies (continued)

1.2 Application of new and revised HKFRSs (continued)

The Group has not early applied any of the following new and revised HKFRSs that have been issued but are not yet effective for annual periods beginning on 1 October 2013:

HKFRS 9	Financial Instruments ⁴
HKFRS 14	Regulatory Deferral Accounts ³
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendment	Investment Entities ¹
HKAS 32 Amendment	Offsetting Financial Assets and Financial Liabilities ¹
HKAS 36 Amendment	Recoverable Amount Disclosures for Non-Financial Assets ¹
HKAS 39 Amendment	Novation of Derivatives and Continuation of Hedge Accounting ¹
HK(IFRIC) – Int 21	Levies ¹
HKAS 19 (2011) Amendment	Defined Benefit Plans: Employee Contributions ²
Annual Improvements Project	Annual Improvements 2010–2012 Cycle ²
Annual Improvements Project	Annual Improvements 2011–2013 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2014.

² Effective for annual periods beginning on or after 1 July 2014.

³ Effective for annual periods beginning on or after 1 January 2016.

⁴ To be determined.

The Group is in the process of making an assessment on the impact of application of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2. **Operating Segment Information**

For management purpose, the Group is organised into business units based on their products and has three reportable operating segments as follows:

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

Since (c) individually do not meet the quantitative thresholds to be separately reported, (c) is reported under "Other businesses".

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reporting segment loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that head office and corporate expenses, share of results of a jointly-controlled entity, bank and other interest income, other income and gains, finance costs are excluded from such measurement. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Segment assets exclude interest in a jointly-controlled entity, available-for-sale investment, loan receivables, pledged time deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

Segment liabilities exclude tax payable, deferred tax liabilities, interest-bearing bank and other borrowing and unallocated head office and corporate liabilities, as these liabilities are managed on a group basis. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

2. Operating Segment Information (continued)

(a) Segment results, assets and liabilities

	Electronic components and parts		Consumer electronic products		Other businesses		Total	
	Six months ended 31 March		Six months ended 31 March		Six months ended 31 March		Six months ended 31 March	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Segment revenue								
Revenue from external customers	161,578	83,532	188,246	293,978	-	179	349,824	377,689
Reportable segment (loss)/profit from operations	(56,764)	(17,999)	(61,181)	(59,681)	-	2	(117,945)	(77,678)
Reconciliation:								
Other income							15,640	7,214
Finance costs							(12,214)	(16,871)
Share of gain/(loss) of a jointly-controlled entity							13	(628)
Unallocated head office and corporate expenses							(2,214)	(2,244)
Loss before tax							(116,720)	(90,207)
Other segment information:								
Capital expenditure [#]	5,181	2,316	5,341	7,492	-	-	10,522	9,808
Amortisation of prepaid land lease payments [*]	466	218	480	706	-	-	946	924
Depreciation [*]	22,116	10,649	22,979	34,441	-	339	45,095	45,429
Impairment of trade receivable, net [*]	2,635	-	2,660	-	-	-	5,295	-
Provision for inventories [*]	16,996	-	17,491	-	-	-	34,487	-

	Electronic components and parts		Consumer electronic products		Other businesses		Total	
	31 March	30 September	31 March	30 September	31 March	30 September	31 March	30 September
	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	391,208	255,793	413,270	642,418	-	-	804,478	898,211
Segment liabilities	55,212	31,576	74,233	98,599	-	-	129,445	130,175

[#] Capital expenditure consists of additions to property, plant and equipment.

^{*} Included in the "Reportable segment (loss)/profit from operations" disclosed above.

2. Operating Segment Information (continued)

(b) Reconciliation of reportable assets and liabilities

	31 March 2014 HK\$'000	30 September 2013 HK\$'000
Assets		
Total reportable segment assets	804,478	898,211
Available-for-sale investment	1,100	2,373
Cash and cash equivalents	106,618	148,055
Interest in a jointly-controlled entity	2,080	2,072
Unallocated head office and corporate assets	174,643	169,116
Consolidated total assets	1,088,919	1,219,827
Liabilities		
Total reportable segment liabilities	129,445	130,175
Bank loans	437,155	323,718
Other borrowing	–	154,377
Deferred tax liabilities	29,717	29,786
Tax payable	56,176	56,245
Unallocated head office and corporate liabilities	98,299	69,053
Consolidated total liabilities	750,792	763,354

2. Operating Segment Information (continued)

(c) Geographic information

The geographical location of revenue information is based on the location of customers at which the services were provided or the goods delivered. The Group's non-current assets are based on the location of the assets and excludes interest in a jointly-controlled entity, available-for-sale investment and deposits paid for acquisition of property, plant and equipment.

	Hong Kong		PRC		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	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Turnover from external customers	11,817	9,467	73,473	121,586	73,959	119,620	169,333	87,432	14,228	28,227	7,014	11,357	349,824	377,689
	31	30	31	30	31	30	31	30	31	30	31	30	31	30
	March	September	March	September	March	September	March	September	March	September	March	September	March	September
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Non-current assets *****	31,434	31,720	526,828	557,145	-	-	-	-	-	-	-	-	558,262	588,865

* Other Asian countries principally included Indonesia, Japan, Korea, Taiwan and Pakistan.

** American countries principally included the United States, Chile, Peru, Argentina, Mexico and Brazil.

*** European countries principally included Poland, Spain, France, Germany and England.

**** African countries principally included Lagos, Nigeria, Kenya and Egypt.

***** Non-current assets information above is based on the location of assets and excluded available-for-sale investment, interest in a jointly-controlled entity and deposits paid for acquisition of property, plant and equipment.

(d) Information about major customers

There was no single customer individually contributed over 10% of the Group's total revenue during the period. (2013: Nil).

3. Revenue

The principal activities of the Group are manufacturing and sale of electronic products, electronic components and parts, computer components and accessories and integrated circuits. Revenue, which is also the Group's turnover, represents the net invoiced value of good sold, after allowances for returns and trade discounts.

4. Finance cost

	Six months ended 31 March	
	2014 HK\$'000	2013 HK\$'000
Interest on bank loans wholly repayable within one year	<u>12,214</u>	<u>16,871</u>

5. Loss before tax

	Six months ended 31 March	
	2014 HK\$'000	2013 HK\$'000
The Group's loss before tax is arrived at after charging/(crediting):		
Cost of inventories sold*	336,075	360,839
Depreciation	45,095	45,429
Amortisation of prepaid land lease payments*	946	924
Provision for inventories*	34,487	–
Foreign exchange difference, net	(707)	(1,878)
Impairment of trade receivables, net [#]	5,295	–
Loss on disposal of available-for-sale investment [#]	255	–
Employee benefits expense (including directors' emoluments):		
Pension scheme contributions	4,690	5,315
Reversal of provision for long service payment	(77)	(87)
Equity-settled share-based payments expenses	1,618	1,986
Salaries, wages and allowances	<u>67,063</u>	<u>87,647</u>
	<u>73,294</u>	<u>94,861</u>

* These items are included in "cost of sales" in the consolidated income statement.

[#] These items are included in "other operating expenses" in the consolidated income statement.

6. Income tax expenses

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period. Subsidiaries established in PRC are subject to the PRC enterprise income tax at the standard rate of 25% (2013: 25%).

Six months ended 31 March

	2014 HK\$'000	2013 HK\$'000
Current tax – PRC		
Charge for the period	<u>2,887</u>	<u>3,123</u>
	<u>2,887</u>	<u>3,123</u>

7. Interim dividend

No dividend was paid or proposed during the period, nor has any dividend been proposed since the end of the reporting period (2013: HK\$Nil).

8. Loss per share

The calculation of basic loss per share amount is based on the loss for the period attributable to equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

The calculation of basic and diluted loss per share are based on:

Six months ended 31 March

	2014 HK\$'000	2013 HK\$'000
Loss:		
Loss for the period attributable to equity holders of the parent	<u>119,607</u>	<u>93,330</u>
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	<u>1,016,001</u>	<u>1,016,001</u>
Weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period	<u>29,498</u>	<u>N/A</u>
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	<u>1,045,499</u>	<u>1,016,001</u>
Basic loss per share	<u>(12 cents)</u>	<u>(9 cents)</u>
Diluted loss per share	<u>(11 cents)</u>	<u>(9 cents)</u>

8. Loss per share (continued)

The Company had no dilutive potential ordinary shares in existence for the six months ended 31 March 2013 since the average market price of ordinary shares during the period exceeds the exercise price of the share options.

9. Additions to property, plant and equipment

During the period, the Group spent approximately HK\$10,522,000 (2013: HK\$9,808,000) on additions to construction in progress, plant and machinery to upgrade its manufacturing capabilities.

10. Trade receivables

	31 March 2014 HK\$'000	30 September 2013 HK\$'000
Trade receivables	220,960	226,296
Impairment	(26,034)	(20,818)
	194,926	205,478

The Group's trading terms with its customers are mainly on credit except for new customers, where payment in advance is normally required. The credit period is generally for a period of three months from the date of billing, except for certain well-established customers, where the terms are extended to six months. The Group seeks to maintain strict control over its receivables to minimise credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	31 March 2014 HK\$'000	30 September 2013 HK\$'000
Within 3 months	140,266	100,757
4 to 6 months	49,616	75,475
Over 7 months	5,044	29,246
	194,926	205,478

10. Trade receivables (continued)

The movement in provision for impairment of trade receivables are as follows:

	Six months ended 31 March	
	2014	2013
	HK\$'000	HK\$'000
Balance at beginning of the period	20,818	41,057
Provision for impairment	5,296	–
Exchange realignment	(80)	390
	<hr/>	<hr/>
Balance at end of the period	26,034	41,447

The individually impaired trade receivables related to customers that were in financial difficulties and over due for more than one year and management assessed that the recoverability of these receivables is in doubt. The Group does not hold any collateral over these balances. As at the end of the reporting period, the management believes that no further impairment allowance is necessary (2013: HK\$Nil).

The aged analysis of the trade receivables that are not individually nor collective by considered to be impaired is as follows:

	31 March	30 September
	2014	2013
	HK\$'000	HK\$'000
Neither past due nor impaired	71,063	43,452
Within 3 months past due	69,203	57,305
4 to 6 months past due	49,616	75,475
Over 7 months past due	5,044	29,246
	<hr/>	<hr/>
	194,926	205,478

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

11. Trade payables

The following is an ageing analysis of trade payables presented based on invoice date as at the end of the reporting period:

	31 March 2014 HK\$'000	30 September 2013 HK\$'000
Within 3 months	74,163	71,656
4 to 6 months	25,717	34,910
7 to 12 months	5,084	7,683
Over 1 year	5,217	7,081
	110,181	121,330

The trade payables are non-interest bearing and average credit period on purchases is 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

12. Share capital

	31 March 2014 HK\$'000	30 September 2013 HK\$'000
Authorised: 10,000,000,000 ordinary shares of HK\$0.1 each	1,000,000	1,000,000
Issued and fully paid: 1,016,001,301 ordinary shares of HK\$0.1 each	101,600	101,600

13. Commitments

The Group had the following capital commitments at the end of the reporting period:

	31 March 2014 HK\$'000	30 September 2013 HK\$'000
Contracted, but not provided for: Acquisition of property, plant and equipment	15,412	1,897

14. Contingent liabilities

At the end of the reporting period, contingent liabilities not provided for in the financial statements are as follows:

	31 March 2014 HK\$'000	30 September 2013 HK\$'000
Guarantees executed by the Company in favour of banks for general banking facilities granted to a subsidiary	28,000	28,000

The Company had given corporate guarantees to banks in connection with banking facilities granted by the banks to a subsidiary. At the end of the reporting period, such facilities was drawn down by the subsidiary to extent of HK\$6,468,000 (30 September 2013: HK\$Nil). The maximum liability of the Company under the guarantee issued represents the amount drawn down by the subsidiary of HK\$6,468,000 (30 September 2013: HK\$Nil). No recognition was made because the fair value of the guarantee was insignificant and that the Directors did not consider it is probable that a claim would be made against the Company under the guarantee.

The Group did not have any other significant contingent liabilities as at the end of the reporting period (30 September 2013: HK\$Nil).

15. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the Group and other related parties are as follows:

(a) *Outstanding balances with related parties*

	31 March 2014 HK\$'000	30 September 2013 HK\$'000
Due to a director	41,310	5,908

The amount due to a director is unsecured, interest-free and repayable on demand.

15. Related party transactions (continued)

(b) Compensation of key management personnel of the Group

The Directors of the Company are the key management personnel of the Group. Details of the directors' emoluments are as follows:

	Six months ended 31 March	
	2014	2013
	HK\$'000	HK\$'000
Fees	480	480
Salaries and allowances	2,569	2,607
(Reversal of)/provision for long service payment	(30)	(32)
Pension scheme contributions	23	22
Share-based payments	783	897
	<hr/>	<hr/>
	3,825	3,974
	<hr/>	<hr/>

The Directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms and in the ordinary course of business.

16. Subsequent event

Completion of the acquisition of construction material business took place on 2 May 2014 in accordance with the terms of the Sale and Purchase Agreement. Convertible Notes in an aggregate principal amount of HK\$300,000,000, a post-dated cheque of HK\$150,000,000 falling due after 18 months and a Promissory Note of HK\$100,000,000 were duly issued accordingly.

Following Completion, Joint Expert Global Limited has become a wholly-owned subsidiary of the Company.

For further details of the acquisition, please refer to the circular of the Company dated 31 March 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of results and operation

Turnover of the Group for the period ended 31 March 2014 dropped by HK\$27,865,000 or 7.4% to HK\$349,824,000, compared to HK\$377,689,000 reported last period. As a result of provision for inventories of HK\$34,487,000 made, gross loss was further deteriorated to HK\$66,478,000 from HK\$29,164,000 reported last period. Gross loss margin dropped from 7.7% to 19.0% this period.

Consumer electronic products

Consumer electronic products mainly consist of electronic calculators, watches and clocks and digital products and their respective revenue for the period were HK\$115,146,000, HK\$33,693,000 and HK\$33,137,000. It remained the largest business segment of the Group during the period and represented 53.8% of the Group's turnover. Aggregated revenue for the period was HK\$188,246,000 compared with HK\$293,978,000 last period, represented a significant decrease of HK\$105,732,000 or 36.0%. The decrease was mainly driven by the drop of revenue from electronic calculators. Shortage of labour in the PRC caused significant delay on the production lead time and thus, sales volume dropped.

Electronic components and parts

Electronic components and parts mainly comprised of Liquid Crystal Displays ("LCD"), Chip On Glass ("COG") and Quartz and their respective revenue for the period were HK\$72,877,000, HK\$80,544,000 and HK\$7,811,000. Aggregated revenue for the period increased significantly by HK\$78,046,000 or 93.4% from HK\$83,532,000 in the same period last year to HK\$161,578,000. This segment has accounted for 46.2% of the Group's revenue. Both LCD and COG boosted up the revenue of this segment. The increase was mainly due to the launchment of bigger size of LCD and COG for tablet with higher selling price.

North/South America countries were the largest market for the period which contributed 48.4% of the Group's turnover.

Net loss of the Group was HK\$119,607,000 in the current period compared with HK\$93,330,000. Further deteriorate of the net loss was mainly arising from the provision for inventories.

Selling and distribution expenses mainly consisted of transportation expenses and branch office expenses. It decreased by HK\$1,358,000 or 25.4% from HK\$5,348,000 last period to HK\$3,990,000 this period.

General and administrative expenses were fairly consistent with last period. It was HK\$44,141,000 compared to HK\$45,300,000 last period. It mainly represented administrative staff costs, directors' remuneration, legal and professional fees and various taxes paid to the PRC Government.

Finance costs were HK\$12,214,000, compared to HK\$16,871,000 last period. Decrease of finance costs by HK\$4,657,000 or 27.6% was in line with the bank borrowings level in compare with the first half of last year.



Liquidity and financial resources

The Group usually finances its operations with internally generated cash flow and banking facilities provided by its principal bankers in both Hong Kong and the PRC. As at 31 March 2014, the total shareholders' equity of the Group was HK\$338,127,000, a decrease of 25.9% over last year. The Group's cash and bank balances and time deposits stood at HK\$106,618,000 whereas bank loans were HK\$443,623,000. The gearing ratio, which was computed by dividing the current liabilities and long-term liabilities by shareholders' equity, was 2.2 times as at the end of the reporting period.

Significant investments and acquisition

During the period, the Group incurred HK\$10,522,000 on additions to construction in progress, plant and equipment to upgrade its manufacturing capacity.

Capital structure

No repurchases of shares were made during the period. On 2 November 2009, the Company granted share options to certain directors and employees of the Group to subscribe for a total of 90,600,000 ordinary shares of HK\$0.1 per share each on or before 1 November 2019. At 31 March 2014, the number of shares in respect of which options had been granted and exercisable was 73,300,000. 3,000,000 share options were lapsed and no share options were exercised during the period.

Pledge of assets

The Group's certain leasehold land and buildings of HK\$112,431,000, prepaid land lease payments of HK\$25,135,000 and investment properties of HK\$91,266,000 are used to secure banking facilities for the Group.

Applications of proceeds of share offer

The remaining balance of approximately HK\$65.4 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 Ltd. As progress of the projects as implemented by Taiwan Communication (Fujian) Company Ltd proceeded at a slower pace than anticipated, the Directors are considering allocating part of such proceeds to other investment opportunities. If any specific targets are identified, the Directors will make announcement in accordance with the applicable rules.

Employees and remuneration policies

As at 31 March 2014, the Group has approximately 3,400 full time management, administrative, technical and production staff in the PRC and Hong Kong. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practice. The Group's directors and employees in Hong Kong joined the Mandatory Provident Fund Scheme. Other staff benefit includes share options granted or to be granted under the share option scheme.

Foreign exchange and currency risks

The Group's monetary assets, liabilities and transactions are principally denominated in Renminbi ("RMB"), United States Dollars ("USD") and Hong Kong Dollars ("HKD"). The Group, with HKD as its presentation currency, is exposed to foreign currency risk arising from the exposure of HKD against USD and RMB, respectively. Considering that HKD is pegged against USD, the Group believes that the corresponding exposure to USD exchange rate fluctuation is nominal. However, the Group has a net exchange exposure to RMB against USD. The Group manages and monitors foreign exchange exposures to ensure appropriate measures are implemented on a timely and effective manner.

Contingent liabilities

As at 31 March 2014, the Company had contingent liabilities in relation to corporate guarantees executed by the Company in favour of banks for general banking facilities granted to a subsidiary of the Company amounting to HK\$28,000,000 and such facilities were utilised to the extent of HK\$6,468,000.

Purchase, sale or redemption of the company's listed securities

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

Prospect

Completion of the acquisition of the construction material business in the PRC took place on 2 May 2014. The target company, Joint Expert Global Limited became a wholly-owned subsidiary of the Company. We believe the acquisition provides an opportunity for the Group to turnaround its unfavorable financial performance and to generate diversified income and additional cash flow for its continuous development.

Following the PRC Government's policy of "moving forward while maintaining stability", continuing urbanization and anticipated investments in infrastructure and real estate are expected to be in place, which are key growth drivers for the construction material industry.

With the global economic conditions remaining unstable, we expect the negative impacts to continue in place on the electronics business and had been planning group restructuring to better allocate the Group's assets. We will consider to scale down certain loss-making electronics manufacturing businesses and dispose the existing assets. Preliminary discussions have been taken place but no terms and conditions have been agreed as at the date thereof.

Insufficient labour supply and increasing cost of raw materials remain the major challenges to the performance of the electronics business. The Group remains conservative on the electronics business, implement cost control measures and streamline the operations to enhance the efficiency.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2014, 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:

Long positions in ordinary shares of the Company:

	Number of shares held, capacity and nature of interest		Percentage of the company's issued share capital
	Directly beneficially owned	Through controlled corporation	
Executive Directors:			
Ms Wong King Ching, Helen	200,000	280,000,000 (Note 1)	
Ms Wong King Man	49,648,000 (Note 2)	280,000,000 (Note 1)	
Non-executive Directors:			
Ms Wong Chun Ying	49,648,000 (Note 2)	—	
Mr Wong Kim Seong	10,000,000	—	
	<u>59,848,000</u>	<u>280,000,000</u>	<u>33.4%</u>

Notes:

1. These 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.
2. These shares are jointly held by Ms Wong King Man and Ms Wong Chun Ying.

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 adopted a share option scheme effective on 25 February 2003 (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 was expired on 25 February 2013. Pursuant to the Scheme, the Company granted options to certain directors and employees on 2 November 2009 to subscribe for a total of 90,600,000 ordinary shares of HK\$0.1 per share each on or before 1 November 2019.

Particulars of outstanding share options under the Scheme of the Company and options granted during the period were as follows:

Name or category of participant	Date of grant of share options	Vesting period	Exercise period of share options	Number of share options at 1 October 2013	Lapsed during the period	Number of share options at 31 March 2014	Exercise	Price of
							price of share options	share at date of grant of options
							HK\$	HK\$
Executive Directors	2.11.2009	Immediate	2.11.2009 – 1.11.2019	4,500,000	–	4,500,000*	0.19	0.19
		2.11.2009 – 1.11.2010	2.11.2010 – 1.11.2019	4,500,000	–	4,500,000*	0.19	0.19
		2.11.2010 – 1.11.2011	2.11.2011 – 1.11.2019	4,500,000	–	4,500,000*	0.19	0.19
		2.11.2011 – 1.11.2012	2.11.2012 – 1.11.2019	4,500,000	–	4,500,000*	0.19	0.19
		2.11.2012 – 1.11.2013	2.11.2013 – 1.11.2019	4,500,000	–	4,500,000*	0.19	0.19
Non-executive Director	2.11.2009	Immediate	2.11.2009 – 1.11.2019	2,000,000	–	2,000,000*	0.19	0.19
		2.11.2009 – 1.11.2010	2.11.2010 – 1.11.2019	2,000,000	–	2,000,000*	0.19	0.19
		2.11.2010 – 1.11.2011	2.11.2011 – 1.11.2019	2,000,000	–	2,000,000*	0.19	0.19
		2.11.2011 – 1.11.2012	2.11.2012 – 1.11.2019	2,000,000	–	2,000,000*	0.19	0.19
		2.11.2012 – 1.11.2013	2.11.2013 – 1.11.2019	2,000,000	–	2,000,000*	0.19	0.19
Independent Non-executive Directors	2.11.2009	Immediate	2.11.2009 – 1.11.2019	1,500,000	–	1,500,000*	0.19	0.19
		2.11.2009 – 1.11.2010	2.11.2010 – 1.11.2019	1,500,000	–	1,500,000*	0.19	0.19
		2.11.2010 – 1.11.2011	2.11.2011 – 1.11.2019	1,500,000	–	1,500,000*	0.19	0.19
		2.11.2011 – 1.11.2012	2.11.2012 – 1.11.2019	1,500,000	–	1,500,000*	0.19	0.19
		2.11.2012 – 1.11.2013	2.11.2013 – 1.11.2019	500,000	–	500,000*	0.19	0.19

SHARE OPTION SCHEME (continued)

Name or category of participant	Date of grant of share options	Vesting period	Exercise period of share options	Number of share options at 1 October 2013	Lapsed during the period	Number of share options at 31 March 2014	Exercise price of share options	Price of Company's share at date of grant of options
							HKS	HKS
Associate of a Director	2.11.2009	Immediate	2.11.2009 – 1.11.2019	2,000,000	–	2,000,000*	0.19	0.19
		2.11.2009 – 1.11.2010	2.11.2010 – 1.11.2019	2,000,000	–	2,000,000*	0.19	0.19
		2.11.2010 – 1.11.2011	2.11.2011 – 1.11.2019	2,000,000	–	2,000,000*	0.19	0.19
		2.11.2011 – 1.11.2012	2.11.2012 – 1.11.2019	2,000,000	–	2,000,000*	0.19	0.19
		2.11.2012 – 1.11.2013	2.11.2013 – 1.11.2019	2,000,000	–	2,000,000*	0.19	0.19
Employees	2.11.2009	Immediate	2.11.2009 – 1.11.2019	5,460,000	(600,000)	4,860,000*	0.19	0.19
		2.11.2009 – 1.11.2010	2.11.2010 – 1.11.2019	5,460,000	(600,000)	4,860,000*	0.19	0.19
		2.11.2010 – 1.11.2011	2.11.2011 – 1.11.2019	5,460,000	(600,000)	4,860,000*	0.19	0.19
		2.11.2011 – 1.11.2012	2.11.2012 – 1.11.2019	5,460,000	(600,000)	4,860,000*	0.19	0.19
		2.11.2012 – 1.11.2013	2.11.2013 – 1.11.2019	5,460,000	(600,000)	4,860,000*	0.19	0.19
				<u>76,300,000</u>		<u>73,300,000</u>		
						<u>73,300,000</u>		

* Exercisable as at the end of the reporting period

Shareholders can refer to the Annual Report 2013 of the Company issued in December 2013 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.

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 internal control and financial reporting matters related to the preparation of the unaudited interim results for the period ended 31 March 2014.

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 from time to time.

NOMINATION COMMITTEE

The Nomination Committee comprises Ms. Wong King Ching, Helen, Ms. Wong King Man and Mr. Leung Chi Fai, the Executive Directors, and the three Independent Non-executive Directors of the Company. It is responsible for the appointment of new directors. To maintain the quality of the Board with a balance of skills and experience, the Committee will identify individuals suitably qualified to become directors when necessary. In evaluating whether an appointee is suitable to act as a director, the Committee will consider the experience, qualification and other relevant factors.

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 2014, 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.

CORPORATE GOVERNANCE *(continued)*

Code On Corporate Governance Practices *(continued)*

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
Lin Yegan
Wang Tian

Independent Non-executive Directors:

Fong Yin Cheung
Hung Yat Ming
So Day Wing

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

Hong Kong, 29 May 2014