



SUNWAY INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 00058

Interim Report
2011

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 2011 (the "period"), together with the comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		(UNAUDITED)	
		Six months ended 31 March	
	Notes	2011 HK\$'000	2010 HK\$'000
Revenue	3	483,057	398,496
Cost of sales		(470,969)	(387,064)
Gross profit		12,088	11,432
Other income		10,362	7,160
Selling and distribution costs		(9,754)	(8,168)
Administrative expenses		(32,876)	(35,547)
Other operating expenses		(2,412)	(10,139)
Loss from operations		(22,592)	(35,262)
Finance costs		(3,812)	(2,864)
Share of (loss)/profit of a jointly-controlled entity		(1,278)	310
Loss before taxation	4	(27,682)	(37,816)
Income tax	5	-	(120)
Loss for the period attributable to owners of the Company		(27,682)	(37,936)
Interim dividend	6	Nil	Nil
Loss per share attributable to owners of the Company	7		
– Basic		(3 cents)	(4 cents)
– Diluted		(3 cents)	(4 cents)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

Six months ended 31 March

	2011 HK\$'000	2010 HK\$'000
Loss for the period attributable to owners of the Company	(27,682)	(37,936)
Other comprehensive income/(loss) for the period (net of tax)		
Exchange differences on translation of financial statements of foreign operations	19,926	3,051
Gain/(loss) arising on change in fair value of available-for-sale investments	180	(989)
Total comprehensive loss for the period attributable to owners of the Company	<u>(7,576)</u>	<u>(35,874)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(UNAUDITED) 31 March 2011 HK\$'000	(AUDITED) 30 September 2010 HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		434,605	444,565
Investment properties		49,617	48,404
Prepaid land lease payments		70,817	69,801
Interest in a jointly-controlled entity		13,918	14,840
Available-for-sale investments		7,205	7,025
Deposits paid for acquisition of property, plant and equipment		8,195	651
		584,357	585,286
CURRENT ASSETS			
Inventories		268,038	285,896
Trade receivables	9	169,248	196,409
Prepayments, deposits and other receivables		58,312	58,523
Pledged time deposits		59,637	27,058
Tax recoverable		80	80
Cash and cash equivalents		69,251	71,751
		624,566	639,717
CURRENT LIABILITIES			
Trade payables	10	127,025	145,110
Accrued liabilities and other payables		44,015	39,081
Due to a director		-	293
Due to a jointly-controlled entity		227	22
Interest-bearing bank borrowings		179,853	172,573
Tax payable		25,286	30,028
		376,406	387,107
NET CURRENT ASSETS			
		248,160	252,610
TOTAL ASSETS LESS CURRENT LIABILITIES			
		832,517	837,896
NON-CURRENT LIABILITIES			
Deferred tax liabilities		27,168	26,963
Provision for long service payment		656	690
		27,824	27,653
NET ASSETS			
		804,693	810,243
CAPITAL AND RESERVES			
Share capital	11	101,600	101,600
Reserves		703,093	708,643
TOTAL EQUITY			
		804,693	810,243

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY – UNAUDITED

For the six months ended 31 March 2011

	Share capital	Share premium account	Contributed surplus	Capital redemption reserve	Share option reserve	Revaluation reserve	Exchange fluctuation reserve	Reserve fund	Fair value reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 October 2010	101,600	177,325	56,471	509	2,007	72,294	189,565	12,928	867	196,677	810,243
Exchange differences on translation of the financial statements of foreign operations	-	-	-	-	-	-	19,926	-	-	-	19,926
Gain arising on change in fair value of available-for-sale investments	-	-	-	-	-	-	-	-	180	-	180
Total other comprehensive income for the period	-	-	-	-	-	-	19,926	-	180	-	20,106
Loss for the period	-	-	-	-	-	-	-	-	-	(27,682)	(27,682)
Total comprehensive loss for the period	-	-	-	-	-	-	19,926	-	180	(27,682)	(7,576)
Recognition of equity-settled share-based payments	-	-	-	-	2,026	-	-	-	-	-	2,026
At 31 March 2011	101,600	177,325	56,471	509	4,033	72,294	209,491	12,928	1,047	168,995	804,693

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY – UNAUDITED

For the six months ended 31 March 2010

	Share capital	Share premium account	Contributed surplus	Capital redemption reserve	Share option reserve	Revaluation reserve	Exchange fluctuation reserve	Reserve fund	Fair value reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 October 2009	101,600	177,325	56,471	509	-	45,174	176,457	12,928	1,803	233,390	805,657
Exchange differences on translation of the financial statements of foreign operations	-	-	-	-	-	-	3,051	-	-	-	3,051
Gain arising on change in fair value of available-for-sale investments	-	-	-	-	-	-	-	-	(989)	-	(989)
Total other comprehensive Income/(loss) for the period	-	-	-	-	-	-	3,051	-	(989)	-	2,062
Loss for the period	-	-	-	-	-	-	-	-	-	(37,936)	(37,936)
Total comprehensive loss for the period	-	-	-	-	-	-	3,051	-	(989)	(37,936)	(35,874)
Recognition of equity-settled share-based payments	-	-	-	-	2,019	-	-	-	-	-	2,019
At 31 March 2010	101,600	177,325	56,471	509	2,019	45,174	179,508	12,928	814	195,454	771,802

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

Six months ended 31 March

	2011 HK\$'000	2010 HK\$'000
Net cash generated from operating activities	28,761	1,834
Net cash used in investing activities	(44,821)	(15,098)
Net cash generated from financing activities	3,181	63,058
Net (decrease)/increase in cash and cash equivalents	(12,879)	49,794
Cash and cash equivalents at the beginning of the period	71,751	98,728
Effect of foreign exchange rate changes, net	10,379	(1,654)
Cash and cash equivalents at the end of the period	69,251	146,868
Analysis of balances of cash and cash equivalents		
Cash and bank balances	69,251	146,868

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and principal accounting policies

1.1 Basis of preparation

The condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“the HKICPA”) and with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). These condensed consolidated interim financial statements are unaudited but have been reviewed by the Company’s audit committee.

The basis of preparation and accounting policies adopted in preparing these condensed consolidated interim financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 30 September 2010 (“Annual Report 2010”), except for the adoption of the following new and revised HKAS and Hong Kong Financial Reporting Standards (“HKFRS”) and Interpretations (hereinafter collectively referred to as “new and revised HKFRSs”) which are applicable to the Group and are effective in the current period.

1.2 Application of new and revised HKFRSs

The Group has adopted the following new and revised HKFRSs that are first effective for the current accounting period:

HKFRSs (Amendments)	Improvements to HKFRSs
HKAS 32 (Amendments)	Classification of rights issues
HKFRS 1 (Amendments)	Additional exemptions for first-time adopters
HKFRS 1 (Amendments)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HK Interpretation 4	Lease – Determination of the length of lease term in respect of Hong Kong land lease
HK Interpretation 5	Classification by the borrower of term loan that contains a repayment on demand clause

The adoption of the new and revised HKFRSs has had no material effect on the condensed consolidated interim financial statements of the Group for the current or prior accounting periods.

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 which have been issued but are not yet effective for annual periods beginning on 1 October 2010:

HKFRSs (Amendments)	Amendments to HKAS 1 and 34, HKFRS 1 and 7 and HK (IFRIC) – Int 13 as parts of improvements to HKFRSs issued in 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ¹
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets ²
HKFRS 9	Financial Instruments ³
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a minimum funding requirement ¹

¹ Effective for annual periods beginning on or after 1 January 2011.

² Effective for annual periods beginning on or after 1 July 2011.

³ Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (1) are held within a business model whose objective is to collect the contractual cash flows and (2) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. In addition, under HKFRS 9, changes in fair value of equity investments are generally recognised in other comprehensive income, with only dividend income recognised in profit or loss. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Directors of the Company anticipated that the application of the other new and revised HKFRSs will have no material impact on the condensed consolidated interim financial statements.

2. Segment information

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the chief operating decision maker for the purposes of resource allocation and performance assessment.

The Group has identified the following three reporting segments. These segments are managed separately.

- (a) the electronic components and parts segment consists of the design, development, manufacture and sale of electronic and related 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 and computer components and accessories.

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the Annual Report 2010. Segment loss represents the loss from each segment without allocation of central administration costs (e.g., share of profit of a jointly-controlled entity and finance costs). This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment. Taxation (credit)/charge is not allocated to reportable segments.

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.

No sales is carried out between segments. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the profit or loss.

All assets are allocated to reportable segments other than interest in a jointly-controlled entity, available-for-sale investments and unallocated assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and all liabilities are allocated to reportable segments other than current tax liabilities, deferred tax liabilities and unallocated liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

2. Segment information (continued)

(a) Business segments

Information regarding the Group's reportable segments as provided to the Group's chief operating decision maker is set out below:

	Electronic components and parts		Consumer electronic products		Other business		Total	
	Six months ended 31 March		Six months ended 31 March		Six months ended 31 March		Six months ended 31 March	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Segment revenue								
Revenue from external customers	96,758	108,123	385,834	289,975	465	398	483,057	398,496
Reportable segment (loss)/profit from operations	(6,585)	(8,058)	(24,161)	(31,873)	23	(7)	(30,723)	(39,938)
Other income							10,362	7,160
Finance costs							(3,812)	(2,864)
Share of (loss)/profit of a jointly-controlled entity							(1,278)	310
Unallocated head office and corporate expenses							(2,231)	(2,484)
							(27,682)	(37,816)
Amortisation of prepaid land lease payments	-	-	-	-	731	714	731	714
Depreciation	7,416	9,495	25,369	22,154	266	275	33,051	31,924
Write down of inventories	6,397	-	21,880	-	-	-	28,277	-
Additions to property, plant and equipment (i.e., non-current assets other than financial assets and deferred tax assets)	2,836	1,535	9,702	4,122	19	612	12,557	6,269

	Electronic components and parts		Consumer electronic products		Other business		Total	
	31 March 2011 HK\$'000	30 September 2010 HK\$'000	31 March 2011 HK\$'000	30 September 2010 HK\$'000	31 March 2011 HK\$'000	30 September 2010 HK\$'000	31 March 2011 HK\$'000	30 September 2010 HK\$'000
	Reportable segment assets	275,613	271,356	650,350	702,250	94	87	926,057
Reportable segment liabilities	24,230	28,767	125,632	134,646	6	4	149,868	163,417

2. Segment information (continued)

(b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

	Six months ended 31 March	
	2011	2010
	HK\$'000	HK\$'000
Revenue		
Consolidated turnover	483,057	398,496
Loss		
Total reportable segments' loss	(30,723)	(39,938)
Reportable segment loss derived from		
Group's external customers	(30,723)	(39,938)
Other income	10,362	7,160
Finance costs	(3,812)	(2,864)
Share of (loss)/profit of a jointly-controlled entity	(1,278)	310
Unallocated head office and corporate expenses	(2,231)	(2,484)
Consolidated loss before taxation	(27,682)	(37,816)

2. Segment information (continued)

(b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities (continued)

	31 March 2011 HK\$'000	30 September 2010 HK\$'000
Assets		
Total reportable segments' assets	926,057	973,693
	926,057	973,693
Available-for-sale investments	7,205	7,025
Interest in a jointly-controlled entity (accounted for by the equity method) (Note 1)	13,918	14,840
Unallocated head office and corporate assets	261,763	229,445
Consolidated total assets	1,208,923	1,225,003
Liabilities		
Total reportable segments' liabilities	149,868	163,417
	149,868	163,417
Current tax liabilities	25,286	30,028
Deferred tax liabilities	27,168	26,963
Unallocated head office and corporate liabilities	201,908	194,352
Consolidated total liabilities	404,230	414,760

Note 1: Interest in a jointly-controlled entity is not included in the measure of segment assets but are regularly provided to the chief operating decision maker.

2. Segment information (continued)

(c) Geographic information

The following is an analysis of geographical location of the Group's revenue from external customers and the Group's non-current assets. The geographical location of customers refers to the location at which the services were provided or the goods delivered. The Group's non-current assets are based on the physical location of the assets, in case of property, plant and equipment, the location of the operation to which they are allocated, in case of intangible assets and goodwill, and the location of operations, in case of interests in a jointly-controlled entity.

	Hong Kong		Mainland China		Other Asian countries*		American countries**		European countries***		African countries****		Consolidated	
	Six months ended 31 March	2010	Six months ended 31 March	2010	Six months ended 31 March	2010	Six months ended 31 March	2010	Six months ended 31 March	2010	Six months ended 31 March	2010	Six months ended 31 March	2010
	2011	HK\$'000	2011	HK\$'000	2011	HK\$'000	2011	HK\$'000	2011	HK\$'000	2011	HK\$'000	2011	HK\$'000
Turnover from external customers	9,883	20,666	110,875	69,414	95,399	76,285	209,885	108,731	37,954	86,542	19,051	36,868	483,057	398,496
Specified non-current assets*****	28,568	29,744	548,584	548,517	-	-	-	-	-	-	-	-	577,152	578,261

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

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

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

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

***** Specified non-current assets excluding financial instruments.

(d) Information about major customers

Revenue from customers contributing 10% or more of the total turnover of the Group are as follows:

	Six months ended 31 March	
	2011	2010
	HK\$'000	HK\$'000
Customer A — revenue from Mainland China	121,590	32,433

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. Loss before taxation

	Six months ended 31 March	
	2011 HK\$'000	2010 HK\$'000
(a) <i>Finance costs:</i>		
Interest on bank loans wholly repayable within five year	3,812	2,864
Total interest expense on financial liabilities not at fair value through profit or loss	3,812	2,864
(b) <i>Employee benefits expense (including directors' emoluments):</i>		
Pension scheme contributions (defined contribution schemes)	1,644	2,110
Reversal of provision for long service payment	(34)	–
Salaries, wages and allowances	97,933	88,810
Share-based payments	2,026	2,019
	101,569	92,939
(c) <i>Other items:</i>		
Amortisation of prepaid land lease payments	731	714
Cost of inventories sold	470,969	387,064
Depreciation	33,051	31,924
Written down of inventories	28,277	–

5. Income tax

Six months ended 31 March

	2011 HK\$'000	2010 HK\$'000
Provision for tax in respect of profit for the period:		
Hong Kong	-	-
Mainland China	-	-
	<hr/>	<hr/>
	-	-
Share of tax attributable to a jointly-controlled entity	-	120
	<hr/>	<hr/>
	-	120
	<hr/>	<hr/>

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 (2010: HK\$Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China, based on existing legislation, interpretations and practices in respect thereof.

The Group and the Company did not have any significant unprovided deferred tax liabilities as at 31 March 2011 (2010: Nil)

6. Interim dividend

The Directors of the Company do not recommend any interim dividend for the six months ended 31 March 2011 (2010: Nil).

7. Loss per share

The calculation of basic loss per share for the six months ended 31 March 2011 is based on the loss for the period attributable to owners of the Company of approximately HK\$27,682,000 (2010: HK\$37,936,000) and the weighted average number of 1,016,001,301 (2010: 1,016,001,301) ordinary shares in issue during the period.

The calculation of diluted loss per share for the six months ended 31 March 2011 is based on the loss for the period attributable to owners of the Company of approximately HK\$27,682,000 (2010: HK\$37,936,000) and the weighted average number of 1,016,101,301 (2010: 1,061,101,301) ordinary shares in issues during the period plus the weighted average number of 36,040,000 (2010: 18,120,000) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

8. Additions to property, plant and equipment

During the period, the Group spent approximately HK\$12,557,000 (2010: HK\$6,269,000) on additions to construction in progress, plant and equipment to upgrade its manufacturing capabilities.

9. Trade receivables

	31 March 2011 HK\$'000	30 September 2010 HK\$'000
Trade receivables	216,837	242,861
Less: Allowance for doubtful debts	(47,589)	(46,452)
	169,248	196,409

(a) Ageing analysis

An ageing analysis of the trade receivables net of allowance for doubtful debts as at the end of the reporting period is as follows:

	31 March 2011 HK\$'000	30 September 2010 HK\$'000
Current to 3 months	122,367	155,737
4 to 6 months	43,293	36,556
7 to 12 months	3,588	4,116
	169,248	196,409

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.

9. Trade receivables (continued)

(a) Ageing analysis (continued)

The factors which the Group considered in determining whether these trade receivables were individually impaired include the following:

- Significant financial difficulty of the debtor;
- Receivables that have been outstanding for over one year; and
- It is becoming probable that the debtor will enter into bankruptcy or other financial re-organisation.

(b) Impairment of trade receivables

Impairments losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remove, in which case the impairment loss is written off against trade receivables directly.

Movement in the allowance for doubtful debts for trade receivables:

	31 March 2011 HK\$'000	30 September 2010 HK\$'000
Balance at beginning of the period	46,452	42,140
Impairment losses recognised on receivable	–	3,600
Exchange realignment	1,137	712
Balance at end of the period	47,589	46,452

At 31 March 2011, the Group's trade receivables of HK\$169,248,000 (2010: HK\$196,409,000) was individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and over due for more than 1 year and management assessed that the recoverability of these receivables is in doubt.

9. Trade receivables (continued)

(c) Trade receivables that are not impaired

Included in the Group's trade receivables balance are debtors with a carrying amount of HK\$62,903,000 (2010: HK\$66,066,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss.

	31 March 2011 HK\$'000	30 September 2010 HK\$'000
Neither past due nor impaired	106,345	130,343
Within 3 months past due	16,022	25,394
4 to 6 months past due	43,293	36,556
7 to 12 months past due	3,588	4,116
	169,248	196,409

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, management believes that no impairment allowance 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. The Group does not hold any collateral over these balances.

10. 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 2011 HK\$'000	30 September 2010 HK\$'000
Current to 3 months	111,463	124,683
4 to 6 months	6,432	9,774
7 to 12 months	1,951	3,907
Over 1 year	7,179	6,746
	127,025	145,110

The 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.

11. Share capital

Authorised:

10,000,000,000 ordinary shares of HK\$0.1 each

Issued and fully paid:

1,016,001,301 ordinary shares of HK\$0.1 each

**31 March
2011
HK\$'000**

30 September
2010
HK\$'000

1,000,000

1,000,000

101,600

101,600

12. Commitments

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

Contracted, but not provided for:

Acquisition of property, plant and equipment

**31 March
2011
HK\$'000**

30 September
2010
HK\$'000

69,709

74,685

13. Contingent liabilities

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

Guarantees executed by the Company in favour of banks for general banking facilities granted to a subsidiary

**31 March
2011
HK\$'000**

30 September
2010
HK\$'000

58,000

58,000

13. Contingent liabilities (continued)

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\$13,629,000 (2010: HK\$17,795,000). The maximum liability of the Company under the guarantee issued represents the amount drawn down by the subsidiary of HK\$13,629,000 (2010: HK\$17,795,000). 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 (2010: HK\$Nil).

14. 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 2011 HK\$'000	30 September 2010 HK\$'000
Due to a director	–	293
Due to a jointly-controlled entity	227	22

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

The amount due to a jointly-controlled entity is unsecured, interest-free and has no fixed term of repayment.

14. 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	
	2011	2010
	HK\$'000	HK\$'000
Fees	480	480
Salaries and allowances	2,650	2,660
Reversal for long service payment	(31)	–
Pension scheme contributions	18	18
Share-based payments	899	890
	4,016	4,048

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.

15. Comparative figures

Certain comparative figures have been adjusted to conform with the presentation of the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of results and operation

For the six months ended 31 March 2011, the Group recorded a consolidated turnover of HK\$483,057,000, representing an increase of 21.2% compared to HK\$398,496,000 in the same period last year. Given the manufacturing cost soared in Mainland China together with the appreciation of Renminbi, selling price of various products has generally increased.

Gross profit for the period was HK\$12,088,000 with gross profit margin of 2.5% compared with 2.9% in the same period last year. Decrease in gross profit margin was resulted from the written-down of inventories of HK\$28,277,000. Excluding the effect of inventories written down, gross profit margin improved as a result of a range of new products including new models of high-end calculators and digital products were launched during the period with positive responses from the market. These products generate higher gross profit margin to the Group.

The major business segments of the Group are (i) consumer electronic products and (ii) electronic components and parts.

Consumer electronic products mainly include calculators, watches and clocks and other digital products which represented 79.9% of the Group's revenue. Revenue from sales of consumer electronic products substantially increased by HK\$95,859,000 or 33.1% from HK\$289,975,000 in the same period last year to HK\$385,834,000 for the six months this period.

Sales of electronic calculators has accounted for 40.9% of the Group's turnover for the period and remained the largest business segment of the Group. Revenue for the period was HK\$197,413,000, slightly improved by 0.5% compared with the same period last year. The business of high-end calculators continues to deliver a steady growth whereas low-end calculators business is deteriorated, showing a shift in consumers' preference. Thus, we will continue to focus on launching new models of calculators to maintain our market shares.

Revenue from sales of electronic watches and clocks was amounted to HK\$65,570,000 and has accounted for 13.6% of the Group's total turnover for the period, a decrease of 4.2% compared with the same period last year.

Revenue from sales of digital products amounted to HK\$103,679,000 and has accounted for 21.5% of the Group's total turnover for the period, a significantly rose by 1,568 times compared with the same period last year. This represented our great success in launching of e-book.

Review of results and operation *(continued)*

Electronic components and parts mainly comprised of Liquid Crystal Displays (“LCD”), Quartz, and Chip On Glass (“COG”) and their respective revenue for the period were HK\$25,956,000, HK\$39,104,000 and HK\$28,101,000. Aggregated revenue for the period decreased by HK\$11,365,000 or 10.5% from HK\$108,123,000 in the same period last year to HK\$96,758,000 and has accounted for 20.0% of the Group’s revenue.

The Group made a improvement on its operating results by minimising loss before taxation by HK\$10,134,000 or 26.8% from HK\$37,816,000 for the same period last year to HK\$27,682,000 for the current period. The improvement was mainly attributable to implementation of proactive strategies to control costs.

Liquidity and financial resources

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers in both Hong Kong and Mainland China. The Group maintains a strong financial position. As at 31 March 2011, the total equity of the Group was approximately HK\$804,693,000, represented a decrease of 0.7% of that at 30 September 2010. The Group’s cash and cash equivalents stood at HK\$69,251,000. The interest-bearing bank borrowings of the Group amounted to HK\$179,853,000. During the period, the Group did not use any financial instruments for any hedging purposes. The Group’s gearing ratio, which was computed by dividing the current liabilities and long term debt by total equity, was 50.2%.

Capital structure

No repurchases of shares were made during the period. On 2 November 2009, 90,600,000 share options were granted to certain directors, associate of a director and employees of the Group. No share options were exercised or cancelled during the period, except as disclosed under the section headed “Share option scheme”.

Pledge of assets

The Group’s certain buildings of HK\$9,575,000, certain prepaid land lease payments of HK\$2,840,000 and time deposits of HK\$59,637,000 of the Group, together with the corporate guarantees of the Company, are used to secure banking facilities of the Group. At 31 March 2011, such facilities were utilised to the extent of approximately HK\$57,283,000.

Application of proceeds of share offer

The remaining balance of about 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

The Group employs approximately 9,000 full time management, administrative, technical and production staff in Mainland China and Hong Kong. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and prevailing industry practice. The Group's directors and employees in Hong Kong joined the Mandatory Provident Fund Scheme. Other staff benefit includes options granted or to be granted under the share option scheme.

Foreign exchange and currency risks

Since most of the revenue generated from the sale of products and the payment for purchases of materials, components, equipment and salaries are either made in Hong Kong Dollar, Renminbi or US Dollar, financial instruments for hedging purposes is considered not necessary as the exposure to exchange rate fluctuations is minimal.

Purchase, sale or redemption of 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.

Prospects

Looking forward to the second half of the financial year, recovery of global economy is expected to continue with many uncertainties. With the rapid development in the Mainland China, average wages for the labour increased continuously. It would therefore contribute towards stronger momentum of increasing labour costs. In addition, we expected the inflation in the Mainland China and the appreciation of Renminbi would continue to exist. The operating environment will be burdened with these factors.

During the period, the Group recorded a remarkable result in sales of e-book. This motivates us in continuing product innovation and modification. Digital consumer products become mainstream of the electronic business. To cope with the changing consumer's demand, new products will be launched such as wireless keyboard and wireless mouse.

Despite increase in sales of digital products during the period, the demand for electronic products, especially digital products, remains volatile and highly competitive. The Group expected possibilities of continuing challenges for the electronic business from such business environment in the second half of this financial year.

The Group will continue to implement stringent cost control and efficiency improvement measures to reduce our overall operating costs and will adjust its business strategies to meet the changes of economic environment. We will also seek to capture any favorable opportunities for prudent investment in order to ensure a continuous, stable and healthy growth, and generate greater value for the shareholders.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2011, 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:

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

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		Exercise period of share options	Number of share options at 1 October 2010 and 31 March 2011	Exercise price of share options HK\$	Price of Company's share at date of grant of options HK\$
		Vesting period				
Executive Directors	2.11.2009	Immediate	2.11.2009 – 1.11.2019	*4,500,000	0.19	0.19
		Immediate	2.11.2010 – 1.11.2019	*4,500,000	0.19	0.19
	2.11.2010 – 1.11.2011	2.11.2011 – 1.11.2019	4,500,000	0.19	0.19	
	2.11.2011 – 1.11.2012	2.11.2012 – 1.11.2019	4,500,000	0.19	0.19	
	2.11.2012 – 1.11.2013	2.11.2013 – 1.11.2019	4,500,000	0.19	0.19	
Non-executive Director	2.11.2009	Immediate	2.11.2009 – 1.11.2019	*2,000,000	0.19	0.19
		Immediate	2.11.2010 – 1.11.2019	*2,000,000	0.19	0.19
	2.11.2010 – 1.11.2011	2.11.2011 – 1.11.2019	2,000,000	0.19	0.19	
	2.11.2011 – 1.11.2012	2.11.2012 – 1.11.2019	2,000,000	0.19	0.19	
	2.11.2012 – 1.11.2013	2.11.2013 – 1.11.2019	2,000,000	0.19	0.19	
Independent Non-executive Directors	2.11.2009	Immediate	2.11.2009 – 1.11.2019	*1,500,000	0.19	0.19
		Immediate	2.11.2010 – 1.11.2019	*1,500,000	0.19	0.19
	2.11.2010 – 1.11.2011	2.11.2011 – 1.11.2019	1,500,000	0.19	0.19	
	2.11.2011 – 1.11.2012	2.11.2012 – 1.11.2019	1,500,000	0.19	0.19	
	2.11.2012 – 1.11.2013	2.11.2013 – 1.11.2019	1,500,000	0.19	0.19	

SHARE OPTION SCHEME (continued)

Name or category of participant	Date of grant of share options		Exercise period of share options	Number of share options at 1 October 2010 and 31 March 2011	Exercise price of share options HK\$	Price of Company's share at date of grant of options HK\$
		Vesting period				
Associate of a Director	2.11.2009	Immediate	2.11.2009 – 1.11.2019	*2,000,000	0.19	0.19
		Immediate	2.11.2010 – 1.11.2019	*2,000,000	0.19	0.19
		2.11.2010 – 1.11.2011	2.11.2011 – 1.11.2019	2,000,000	0.19	0.19
		2.11.2011 – 1.11.2012	2.11.2012 – 1.11.2019	2,000,000	0.19	0.19
		2.11.2012 – 1.11.2013	2.11.2013 – 1.11.2019	2,000,000	0.19	0.19
Employees	2.11.2009	Immediate	2.11.2009 – 1.11.2019	*8,020,000	0.19	0.19
		Immediate	2.11.2010 – 1.11.2019	*8,020,000	0.19	0.19
		2.11.2010 – 1.11.2011	2.11.2011 – 1.11.2019	8,020,000	0.19	0.19
		2.11.2011 – 1.11.2012	2.11.2012 – 1.11.2019	8,020,000	0.19	0.19
		2.11.2012 – 1.11.2013	2.11.2013 – 1.11.2019	8,020,000	0.19	0.19
			90,100,00			
* Exercisable as at the end of the reporting period			36,040,000			

Shareholders can refer to the Annual Report 2010 of the Company issued in January 2011 for further details of the share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

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

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

The Audit Committee, comprises the three Independent Non-executive Directors of the Company, has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters related to the preparation of the unaudited interim results for the period ended 31 March 2011.

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 the three 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 2011, except for the following deviations:

Code Provision A.2.1

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

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

Code Provision A.4.1 and A.4.2

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry of all directors of the Company, the Company confirms that all directors of the Company have complied with required standard set out in the Model Code for the period under review.

BOARD OF DIRECTORS

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

Executive Directors:

Wong King Ching, Helen
Wong King Man
Leung Chi Fai

Independent Non-executive Directors:

So Day Wing
Wong Kun Kim
Kan Lai Kuen

Non-executive Directors:

Wong Chun Ying
Wong Kim Seong

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

Hong Kong
27 May 2011