SUN EAST TECHNOLOGY (HOLDINGS) LIMITED

日東科技(控股)有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 365)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2006

ANNUAL RESULTS

The Board of directors (the "Directors") of Sun East Technology (Holdings) Limited (the "Company") and together with its subsidiaries (the "Group") are pleased to announce the audited consolidated results of the Group for the year ended 31 March 2006 together with comparative figures for the previous corresponding year as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
REVENUE	5	**458,296**	521,928
Cost of sales		**(406,520)**	(421,536)
Gross profit		**51,776**	100,392
Other income and gains	5	**3,396**	2,773
Selling and distribution costs		**(24,575)**	(23,829)
Administrative expenses		**(59,372)**	(46,380)
Other operating income/(expenses), net		**(8,406)**	4,014
Finance costs	6	**(1,975)**	(2,591)
Share of profits/(losses) of:			
A jointly-controlled entity		**952**	(255)
An associate		**20**	75
PROFIT/(LOSS) BEFORE TAX	7	**(38,184)**	34,199
Tax	8	**1,004**	(1,958)
PROFIT/(LOSS) FOR THE YEAR		**(37,180)**	32,241
DIVIDEND			
Proposed final		**–**	9,375
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS	9		
– Basic		**(HK9.91) cents**	HK8.99 cents
– Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**139,895**	147,524
Investment property		**2,020**	1,940
Prepaid land lease payment		**6,752**	6,715
Intangible asset		**5,967**	11,467
Interest in a jointly-controlled entity		**5,570**	4,618
Interest in an associate		**1,010**	990
Other deposits and receivables		**1,850**	3,100
Total non-current assets		**163,064**	176,354
CURRENT ASSETS			
Inventories		**94,958**	85,076
Construction contracts		**–**	2,831
Accounts receivable	10	**95,713**	153,128
Prepayments, deposits and other receivables		**23,470**	11,814
Tax recoverable		**206**	–
Pledged time deposit		**–**	2,000
Pledged cash and bank balances		**2,000**	–
Cash and cash equivalents		**70,742**	68,594
Total current assets		**287,089**	323,443
CURRENT LIABILITIES			
Accounts and bills payables	11	**84,528**	88,124
Other payables and accruals		**41,354**	37,640
Interest-bearing bank and other borrowings		**21,201**	36,632
Tax payable		**22,011**	24,336
Amount due to a director		**383**	171
Total current liabilities		**169,477**	186,903
NET CURRENT ASSETS		**117,612**	136,540
TOTAL ASSETS LESS CURRENT LIABILITIES		**280,676**	312,894
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**6,778**	1,683
Deferred tax liabilities		**3,896**	2,862
Total non-current liabilities		**10,674**	4,545
Net assets		**270,002**	308,349
EQUITY			
Issued capital		**37,500**	37,500
Reserves		**232,502**	261,474
Proposed final dividend		**–**	9,375
Total equity		**270,002**	308,349

Notes:

1. **Basis of Preparation**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, except for investment properties, and leasehold land and buildings, which have been measured at fair value. These financial statements are presented in Hong Kong dollars.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. **IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 21, 23, 27, 28, 31, 32, 33, 36, 37, 38, 39, HK-Int 4 and HKFRSs 3 and 5 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

In prior periods, the Group's share of tax attributable to associate was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition result of associate is presented net of the Group's share of tax attributable to associate.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) **HKAS 17 – Leases**

In prior years, leasehold land and buildings held for own use were stated at valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payment, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The effects of the above changes are summarised in note 3 to the financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

(b) **HKAS 40 – Investment Property**

In prior years, changes in the fair values of investment properties were dealt with as movements in the asset revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

This change in accounting policy has had no effect on the consolidated income statement, consolidated retained profits and the consolidated balance sheet.

(c) **HKFRS 2 – Share-based Payment**

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 April 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 March 2005 but had not yet vested as at 1 April 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 March 2004 and at 31 March 2005. The Group has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised in note 3 to the financial statements.

(d) **HK(SIC)-Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets**

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

This change in accounting policy has had no effect on the consolidated income statement, consolidated retained profits and the consolidated balance sheet.

3. **SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES**

(a) **Effect on the consolidated balance sheet**

At 1 April 2005 Effect of new policy (Increase/(decrease))	Effect of adopting HKAS 17# Prepaid land lease payment HK$'000
Assets	
Property, plant and equipment	(10,873)
Prepaid land lease payment	6,715
Prepayments, deposits and other receivables	158
	(4,000)
Liabilities/equity	
Asset revaluation reserve	(4,000)

\# Adjustments/presentation taken effect retrospectively

At 31 March 2006 Effect of new policies (Increase/(decrease))	Effect of adopting: HKAS 17 Prepaid land lease payment HK$'000	Effect of adopting: HKFRS 2 Equity-settled share option arrangements HK$'000	Total HK$'000
Assets			
Property, plant and equipment	(10,912)	–	(10,912)
Prepaid land lease payment	6,752	–	6,752
Prepayments, deposits and other receivables	160	–	160
			(4,000)
Liabilities/equity			
Share option reserve	–	4,992	4,992
Asset revaluation reserve	(4,000)	–	(4,000)
Retained profits	–	(4,992)	(4,992)
			(4,000)

(b) **Effect on the balances of equity at 1 April 2004 and at 1 April 2005**

Effect of new policy (Increase/(decrease))	Effect of adopting HKAS 17 Prepaid land lease payment HK$'000
1 April 2004	
Asset revaluation reserve	(4,000)
1 April 2005	
Asset revaluation reserve	(4,000)

(c) **Effect on the consolidated income statement for the year ended 31 March 2006**

Effect of new policy (Increase/(decrease))	Effect of adopting HKFRS 2 Employee share option scheme HK$'000
Year ended 31 March 2006	
Increase in administrative expenses	4,992
Total decrease in profit	(4,992)
Decrease in basic earnings per share	HK0.01 cent
Decrease in diluted earnings per share	N/A

4. **SEGMENT INFORMATION**

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

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

(a) the production lines and production equipment segment consists of the design, manufacture and sale of production lines and production equipment; and

(b) the brand name production equipment segment consists of the trading and distribution of brand name production equipment;

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) **Business segments**

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 March 2006 and 2005.

Group

	Production lines and production equipment 2006 HK$'000	Production lines and production equipment 2005 HK$'000 (Restated)	Brand name production equipment 2006 HK$'000	Brand name production equipment 2005 HK$'000	Consolidated 2006 HK$'000	Consolidated 2005 HK$'000 (Restated)
Segment revenue:						
Sales to external customers	**293,879**	326,865	**164,417**	195,063	**458,296**	521,928
Other revenue – external	**2,577**	2,017	**–**	–	**2,577**	2,017
Total	**296,456**	328,882	**164,417**	195,063	**460,873**	523,945
Segment results	**(57,586)**	8,125	**19,586**	28,089	**(38,000)**	36,214
Interest and unallocated income					**819**	756
Finance costs					**(1,975)**	(2,591)
Share of profits and losses of:						
A jointly-controlled entity	**952**	(255)	**–**	–	**952**	(255)
An associate	**20**	75	**–**	–	**20**	75
Profit/(loss) before tax					**(38,184)**	34,199
Tax					**1,004**	(1,958)
Profit/(loss) for the year					**(37,180)**	32,241

4. **SEGMENT INFORMATION (continued)**

(a) **Business segments (continued)**

Group

	Production lines and production equipment		Brand name production equipment		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000* (Restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (Restated)
Segment assets	**353,097**	432,048	**86,976**	56,391	**440,073**	488,439
Interest in a jointly-controlled entity	**5,570**	4,618	–	–	**5,570**	4,618
Interest in an associate	**1,010**	990	–	–	**1,010**	990
Unallocated assets					**3,500**	5,750
Total assets					**450,153**	499,797
Segment liabilities	**75,259**	113,174	**50,623**	12,590	**125,882**	125,764
Unallocated liabilities					**54,269**	65,684
Total liabilities					**180,151**	191,448
Other segment information:						
Depreciation and amortisation, including recognition of prepaid land lease payment	**20,820**	21,154	–	–	**20,820**	21,154
Capital expenditure	**6,970**	11,768	–	–	**6,970**	11,768
Changes in fair value of leasehold land and buildings	**(12)**	(41)	–	–	**(12)**	(41)
Changes in fair value of an investment property	**(80)**	(720)	–	–	**(80)**	(720)
Provision for doubtful debts	**7,458**	2,630	–	–	**7,458**	2,630
Provision for obsolete inventories	**3,838**	–	–	–	**3,838**	–
Loss on disposal of items of property, plant and equipment	**2,477**	30	–	–	**2,477**	30
Foreseeable losses of construction contracts	–	4,466	–	–	–	4,466

(b) **Geographical segments**

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

Group

	Hong Kong		Mainland China		European Union		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000*** (Restated)	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (Restated)
Segment revenue:										
Sales to external customers	**78,190**	91,742	**341,409**	414,588	**12,195**	10,045	**26,502**	5,553	**458,296**	521,928
Other segment information:										
Segment assets	**193,631**	257,473	**248,921**	242,324	**3,092**	–	**4,509**	–	**450,153**	499,797
Capital expenditure	**2,868**	–	**4,102**	11,768	–	–	–	–	**6,970**	11,768

5. **REVENUE, OTHER INCOME AND GAINS**

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the net invoiced value of the services provided; and an appropriate proportion of contract revenue of construction contracts.

An analysis of revenue, other income and gains is as follows:

	2006 ***HK$'000***	2005 *HK$'000*
Revenue		
Sale of goods	**458,296**	508,046
Construction contracts	–	13,882
	458,296	521,928
Other income		
Bank interest income	**819**	329
Gross and net rental income	**83**	83
Service income	**843**	980
Others	**1,651**	954
	3,396	2,346
Gains		
Exchange gains, net	–	427
	3,396	2,773

6. **FINANCE COSTS**

	2006 ***HK$'000***	2005 *HK$'000*
Interest on bank loans wholly repayable within five years	**1,836**	2,363
Interest on finance leases	**139**	228
	1,975	2,591

7. **PROFIT/(LOSS) BEFORE TAX**

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

	2006 ***HK$'000***	2005 *HK$'000*
Cost of inventories sold	**393,921**	399,645
Depreciation	**15,162**	15,499
Minimum lease payments under operating leases in respect of land and buildings	**1,576**	2,245
Employee benefits expense		
Wages and salaries	**51,510**	45,775
Equity-settled share option expense	**4,992**	–
Pension scheme contributions	**429**	882
	56,931	46,657
Amortisation of technical know-how	**5,500**	5,499
Amortisation of prepaid land lease payment	**158**	156
Changes in fair value of an investment property	**(80)**	(720)
Changes in fair value of leasehold land and buildings	**(12)**	(41)
Provision for doubtful debts	**7,458**	2,630
Provision for obsolete inventories	**3,838**	–
Foreseeable loss on construction contract	–	4,466
Loss on disposal of items of property, plant and equipment	**2,477**	30
Foreign exchange differences, net	**76**	(427)

8. **TAX**

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rate of taxes prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006 ***HK$'000***	2005 *HK$'000* (Restated)
Group:		
Current – Hong Kong		
Charge for the year	**3,349**	10,869
Current – Elsewhere		
Charge for the year	–	727
Overprovision in prior years	**(5,034)**	(7,826)
Deferred	**681**	(1,812)
	(1,004)	1,958

9. **EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS**

The calculation of the basic loss per share amount is based on the loss for the year of HK$37,180,000 (2005: profit of HK$32,241,000) attributable to ordinary equity holders, and the 375,000,000 (2005: weighted average number of 358,767,123) ordinary shares in issue during the year.

There has been no dilutive effect on the basic loss per share for the year ended 31 March 2006 as the exercise prices of the outstanding share options were higher than the average market price of the Company's shares during the year.

No diluted earnings per share for the year ended 31 March 2005 has been calculated as no diluting events existed during that year.

10. **ACCOUNTS RECEIVABLE**

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The normal credit period by the Group to its customers ranges from 30 to 180 days. Each customer has a maximum credit limit. The Group has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	2006 ***HK$'000***	2005 *HK$'000*
Within 90 days	**49,017**	111,381
91 to 120 days	**7,931**	8,066
121 to 180 days	**8,340**	3,946
181 to 360 days	**19,970**	13,305
Over 360 days	**10,455**	16,430
	95,713	153,128

Included in the Group's accounts receivable are amounts due from the Group's jointly-controlled entity and associate of HK$5,265,000 (2005: HK$93,000) and HK$10,000 (2005: HK$410,000), respectively, which are unsecured, interest-free and repayable within 30 days.

11. **ACCOUNTS AND BILLS PAYABLES**

An aged analysis of the accounts and bills payables balance as at the balance sheet date, based on the invoice date, is as follows:

	2006 ***HK$'000***	2005 *HK$'000*
Within 90 days	**56,104**	54,289
91 to 120 days	**8,410**	7,985
Over 120 days	**20,014**	25,850
	84,528	88,124

The accounts and bills payables are non-interest-bearing and are normally settled from 30 to 90 days.

DIVIDENDS

No interim dividend was paid during the year and the Directors do not recommend the payment of final dividend in respect of the year (2005: HK2.5 cents per share).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 5 September 2006 to 7 September 2006 (both days inclusive), during which period no transfer of shares will be registered.

In order to qualify for attending the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 pm on 4 September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

Summary of the financial results of the Group for the year ended 31 March 2006 are as follows:

– Turnover was HK$458 million (2005: approximately HK$522 million), represented a decrease of approximately 12%.

– Loss before tax was HK$38 million (2005: Profit before tax of approximately HK$34 million).

– Loss for the year was HK$37 million (2005: Profit of approximately HK$32 million).

– Basic loss per share was HK$9.91 cents (2005: earnings per share of approximately HK$8.99 cents).

Business Review

During the year under review, turnover decreased by 12 per cent compared to the same period under review in the previous year. Increasingly competitive market environment, rising wages, surging production costs and difficulty in raising prices had impacted the Group's profit. Gross profit margin had therefore decreased from 19 per cent to 11 per cent.

In addition, the Group's results for the year have been adversely affected mainly by (i) a significant increase in provision for doubtful debts in view of the inability of certain customers to settle their long overdue debts; (ii) provisions taken against certain redundant facilities; (iii) the writing down to their recoverable amounts in respect of inventory items identified to be slow-moving or obsolete; (iv) increase in staff costs due to rising wages in Shenzhen, and (v) the expense relating to the granting of share options during the year.

Performance Analysis

As an upstream industrial manufacturer, the Group is principally engaged in the supply of production equipment for manufacturers in the electronics industry. The Group's operations are divided into four major divisions, namely, electronics assembly equipment, automated production line, semiconductor packaging equipment and sheet metal fabrication. By market analysis, China and Hong Kong accounted for 74 per cent and 17 per cent of the Group's turnover for the 2005-2006 financial year, while the rest was derived from turnover from exports to overseas countries.

1. **Electronics Assembly Equipment**

Electronics assembly equipment is the Group's core business, which includes manufacturing and trading of soldering equipment, distribution of pick and place machines, and production and sale of screen printers, and related design and supplementary services.

The Group understands that environmental protection will be an important issue for the electronics industry in China. It therefore signed a memorandum of understanding with Shenzhen SZ-HK Productivity Foundation Company Limited on 30 August 2005 and became the founding member of the Shenzhen-Hong Kong Green Production Technology Centre .

a. *Soldering Equipment*

The Group is principally engaged in design, manufacture and trading of soldering equipment. With the implementation of European Union's RoHS directive ("The restriction of the use of certain hazardous substances in electrical and electronics equipment") starting from 1 July 2006, large corporations in mainland China had basically completed the upgrading to lead-free equipments. However, small and mid-size enterprises have adopted a wait-and-see attitude about the impacts of these regulations, resulting in a stable turnover recorded during the review period. It is anticipated that additional orders for lead-free equipments will be confirmed upon the introduction of lead-free legislation in other countries including China.

Sun East places heavy emphasis on research and product development. The Group continues to devote substantial resources to this area and has achieved satisfactory results. Genesis, a hot air re-flow system launched by the Group, received the Hong Kong Awards for Industries 2005. This is the second time that Sun East received this highly-acclaimed industry accolade in the past three years. Newly developed wave soldering system and lead-free hot air reflow system are expected to be launched in the near future.

The Group had set up a jointly-controlled entity ("JV") with Rehm-Anlagenbau GmbH, a renowned German soldering equipment producer specializing in high precision reflow soldering equipment to enhance the Group's positioning in the high-end soldering equipment market. With China focusing on the development of high-end and innovative products as a key growth strategy for the country, demand for high precision reflow soldering equipment is expected to increase gradually.

b. *Pick and Place Machines*

The Group is principally engaged in the distribution of pick and place machines of internationally well-known brands. It is the exclusive distributor of Samsung Techwin pick and place machines in China and Hong Kong, and has been the brand's top distributor in terms of sales around the world. Samsung Techwin is one of the best-selling brands for the medium-end pick and place machine market in China. During the period under review, market demand for pick and place machine had been stable. However, Japanese manufacturers' low-price tactics, together with the depreciation of the Japanese yen, led to a significant price drop and created intense competitive pressure.

c. *Screen Printer*

To expand the screen printer business, the Group has made continues efforts in strengthening the research and development and production capacity. These efforts have borne some fruits. During the period under review, screen printing sales increased by more than 30%. This was resulted from the burgeoning demand for automatic screen printing machines in mainland China, along with the increase brand recognition of Sun East's products within the industry.

The Group has embarked on a two-pronged strategy to capture this business opportunity. On the one hand, Sun East signed a distribution agreement with Obertech, an internationally renowned Automatic Optical Inspection (AOI) equipment manufacturer, to complement the Group's product offerings. On the other hand, the Group has carried on enhancing product quality. For example, a new model SEM668 was launched to bolster Sun East's leading position in the industry. Regarding sales strategies, the Group will target large corporations as its products have price advantages over imported machines, and the company enjoys high reputation within the industry.

2. **Automated Production Line**

The Group provides automated production line solution to its customers in addition to the supply of production equipment and the design and assembly of production lines. This allows the Group to offer turn-key services thus increase the sales of its self-produced and distributed products.

Fierce competition in the electronics industry had dwarfed the business during the period under review. However, substantial capital requirement poses a high entry barrier for smaller companies to compete with corporations such as Sun East. The Group will continue to reduce costs, improve product quality and raise production capacity to maintain the Group's leading position in the industry.

3. **Semiconductor Packaging Equipment**

The Group has been actively developing its semiconductor packaging equipment business and recorded an increase in sales during the period under review. This is primarily due to the expansion of LED market, driving demand for Chip on Glass ("COG") equipment. It is also because the Group's semiconductor packaging technology is getting more mature.

The Group's semiconductor packaging business covers two main types of product: Chip on Board ("COB") and Chip on Glass ("COG") equipment. The Group's COB equipment has a comparative price advantage over those imported brands with similar functionality. Currently, the Group's manual COG enjoys high recognition in Southern China. But price competition in the manual COG equipment market was becoming more severe. The development of semi-auto or automatic equipments catering for packaging larger-size chips will be the future direction.

In addition, companies currently using manual wire bonding machines are now switching to automatic ones. The Group is in the process of developing low-cost automative wire bonding machines as this group of customer is growing and can become important potential clients.

The Group will focus on external cooperation with overseas corporations and research institutions to develop its semiconductor packaging equipment business. It will also introduce appropriate products or technologies that suit the needs of the China market and look for opportunities for self-development or joint ventures for further growth. The Group is in the process of partnering with a Korean enterprise for joint production in this business.

4. **Sheet Metal Fabrication**

The Group's sheet metal fabrication business was well developed and generated favourable cashflow. Sales increased by 36% compared to the same period in the previous year. Apart from supplying metal parts for internal consumption, the business had been providing parts for internationally renowned customers including Konica and Panasonic, as well as metal parts for medium to high-end products.

During the period under review, the sheet metal fabrication market was positive with a stable growth trend. With increased efforts in developing new customers, the Group has successfully acquired orders from new customers including Japanese brands San-Es and TWG. These new customers come from various industries (OA, self-service equipment and electronics industries) which help us develop different markets. The Group expects that approximately HK$5 million to HK$10 million can be generated from each new client.

Prospects

Looking into the future, China will continue to be the global electronics product manufacturer and attract investments from more overseas electronics manufacturers. The Eleventh Five-Year-Plan outlined at the beginning of the year stresses the importance of China progressing to a self-sustained, innovative and environmentally-friendly economy. The electronics industry, which contributes to over 15% of the mainland China's GDP, has to increase its technology content while at the same time meet the environmental standards. Furthermore, the Guangdong province government now proactively pushes the electronics product industry to move upmarket. It is anticipated that these macro-economic factors will edge up the demand for high-end and environmentally-friendly electronic assembly equipment.

Regulatory changes will be another driving force to speed up the adoption of green electronics assembly equipment. The European Union's RoHS directive was effective on 1 July 2006. "Bill on the Prevention of Toxins in Electronic Products" has been drafted in China and "Measures on the Control and management of Pollution Caused by Electronic Information Products" is expected to be promulgated in the near term. These will propel the sales of quality lead-free electronic assembly equipment, which in turn benefits Sun East.

Sun East is now firmly established in the Pearl River Delta, the hub for electronics product manufacturers. A CCID Consulting report estimated that the demand growth of SMT equipment will be relatively faster in Yangtze River Delta and Bohai region in the next couple of years. As the Group has achieved significant brand recognition in Southern China region, management attention will be focused on expanding businesses in Yangtze River Delta to increase market share and further boost sales. The CCID Consulting report estimated that between 2005 and 2009, the compound annual growth rate for the electronics assembly equipment market will be 12.6 per cent and 18.5 per cent for the Yangtze River Delta and Bohai region respectively.

The environment in which the Group operates is full of opportunities yet highly-competitive. To maintain Sun East's leading position, the Group will continue to invest in product development by strengthening cooperation with universities and research institutes and identifying potential acquisition targets and strategic partners to upgrade product level. For soldering equipment business, focuses will be placed on developing high-end, digitalised products. For screen printer business, the Group will continue to enhance product quality. For sheet metal fabrication business, the Group aims to raise product quality and introduce advance machineries to reduce manpower.

To support the launch of new products, the Group will strengthen marketing and promotion efforts by joining overseas trade shows and increasing promotion in the trade media.

Liquidity and Capital Structure

As at 31 March 2006, the Group had current assets of HK$287 million (2005: HK$323 million) mainly comprising prepayments, deposits and other receivables of HK$23 million (2005: approximately HK$12 million), inventories of HK$95 million (2005: approximately HK$85 million), accounts receivable of HK$96 million (2005: approximately HK$153 million) and cash in banks of HK$73 million (2005: HK$71 million). The Group had current liabilities of HK$169 million (2005: approximately HK$187 million). The current ratio decreased from 1.73 as at 31 March 2005 to 1.69 as at 31 March 2006.

At 31 March 2006, the Group had total assets of HK$450 million (2005: approximately HK$500 million) and total liabilities of HK$180 million (2005: approximately HK$191 million). The gearing ratio (calculated as a percentage of debt to equity) was 10% (2005: 12%).

Financial Resources

At 31 March 2006, the Group had fixed and floating interest-bearing bank borrowings of HK$26 million (2005: approximately HK$35 million), of which HK$18 million (2005: HK$33 million) are denominated in Renminbi and mainly used for the PRC's operating expenses and working capital. Approximately 75% of the Group's bank borrowings are repayable within one year.

As a significant portion of the Group's sales and purchases are denominated in Hong Kong dollars and Renminbi, in view of the stability of the exchange rate of Hong Kong dollars and Renminbi, the directors consider that the Group has no significant exposure to foreign exchange fluctuation. During the year, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 March 2006.

As at 31 March 2006, cash and bank balances amounted to HK$71 million (2005: approximately HK$69 million), of which HK$10 million (2005: approximately HK$20 million) are denominated in Renminbi and the majority of the remaining balances are denominated in Hong Kong dollars.

Contingent Liabilities

On 28 July 2004, 廣州寶龍集團輕型汽車製造有限公司("寶龍"), a company operating in Zengcheng, PRC and a customer of 西菲士表面處理工程(深圳)有限公司("西菲士"), a subsidiary of the Company, filed a civil complaint against 西菲士 in the District Court of Zengcheng, the PRC (the "Action"). In the Action, 寶龍 alleged that 西菲士 had breached certain conditions in a construction contract (the "Contract") including delay in assembling a production line. In the Action, 寶龍 is claiming for the sum of RMB1,000,000 as compensation, the recovery of certain documents and information of the production line, and respective legal costs against 西菲士. 西菲士 is defending this Action and has counter-claimed 寶龍 for approximately RMB6,116,000 as compensation for costs incurred on the production line and the related legal costs against 寶龍.

A provision of HK$4,070,000 was made in the prior year for foreseeable losses on the construction cost incurred under the contract. Having sought advice from the Company's PRC legal advisers, the directors are of the opinion that the Action is unlikely to succeed based on the merits of the case and therefore, the directors consider that no further material liability is likely to result therefrom.

Capital Commitments

As at 31 March 2006, the Group had no material capital commitments. The Group had commitments in respect of equity injections into its PRC subsidiaries amounting to HK$10,000,000 as at 31 March 2005.

CHARGES ON GROUP ASSETS

Certain of the Group's bank loans are secured by:

(i) a first legal charge on the Group's investment property situated in Hong Kong, which had a carrying value at the balance sheet date of HK$2,020,000 (2005: HK$1,940,000);

(ii) a first legal charge on certain of the Group's land and buildings, which had an aggregate net book value at the balance sheet date of HK$1,960,000 (2005: HK$1,790,000);

(iii) a first legal charge on the Group's motor vehicle, which had an aggregate net book value at the balance sheet date of HK$230,000 (2005: HK$312,000);

(iv) corporate guarantees provided by the Company.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2006, the Group employed approximately 1,700 full time employees of which approximately 1,650 were in the PRC and approximately 50 were in the Hong Kong office.

The Group remunerates its employees based on industry's practice. In the PRC, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, the Group provides staff benefits including pension scheme and performance related bonuses.

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 year.

CORPORATE GOVERNANCE

The director consider that the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 March, 2006, with the following deviations:

Code Provision A1.1

Code Provision A1.1 stipulates that the Company should hold as least four regular Board meetings a year at approximately quarterly intervals with active participation of a majority of directors, either in person or through other electronic means of communication.

Regular Board meetings were held twice during the year for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. As the Company did not announce quarterly results no quarterly meetings have been held. In order to meet the Code Provision, the Company plans to hold at least four regular Board meetings, at approximately quarterly intervals, starting from the financial year commencing on 1 April 2006.

Code Provision A4.1

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. The Company's non-executive directors are not appointed for a specific term but are subject to retirement by rotation in accordance with the Company's Bye-Laws. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable with those in the Code.

AUDIT COMMITTEE

The Company has an audit committee which were established in accordance with the requirements of the Code for the purpose of reviewing and providing supervision over the Group's internal controls and financial reporting matters including the review of the results for the year ended 31 March 2006. The audit committee comprises the three independent non-executive directors of the Company.

REMUNERATION COMMITTEE

The Company has a remuneration committee which was established in accordance with the requirements of the Code for the purpose of reviewing the remuneration policy and fixing the remuneration package for all Directors. The remuneration committee currently comprises three members, namely Prof. Xu Yang Sheng and Mr. Yau Wing Keung, Frankie who are independent non-executive directors, and Mr. But Tin Fu, who is an executive director.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors on terms no less exactly than the required standard set out in the Model Code. Having made specific enquiry of the Directors, all Directors has complied with, for any part of the accounting period under review, the required standard set out in the Model Code and its code of conduct regarding directors securities transactions.

PUBLIC FLOAT

Based on the information that is publicly available to the Company as at the date of this announcement and within the knowledge of the Directors, there was a sufficiency of public float of the Company's securities as required under the Listing Rules.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITE OF THE HKEX TRANSACTIONS

The annual report containing all the information required under Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to thank all my fellow directors and staff for their invaluable contribution and support to the Group for the past years.

By Order of the Board of Directors
Sun East Technology (Holdings) Limited
But Tin Fu
Chairman

Hong Kong, 27 July 2006

As at the date of this announcement, the board of directors of the Company comprises Mr. But Tin Fu, Mr. But Tin Hing, Mr. Leung Cheong and Mr. Leung Kuen, Ivan as Executive Directors; Mr. See Tak Wah, Prof. Xu Yang Sheng and Mr. Yau Wing Keung, Frankie as Independent Non-executive Directors.

* *For identification purpose only*