



# 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 2005

### 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 2005 together with comparative figures for the previous corresponding year as follows:

		2005 HK\$'000	2004 HK\$'000
	Notes		
<b>TURNOVER</b>	3	<b>521,928</b>	<b>443,218</b>
Cost of sales		<b>(421,536)</b>	<b>(349,330)</b>
Gross profit		<b>100,392</b>	<b>93,888</b>
Other revenue and gains	3	<b>2,773</b>	<b>1,578</b>
Selling and distribution costs		<b>(23,829)</b>	<b>(18,997)</b>
General and administrative expenses		<b>(46,380)</b>	<b>(41,220)</b>
Other operating income, net		<b>4,014</b>	<b>6,771</b>
<b>PROFIT FROM OPERATING ACTIVITIES</b>	4	<b>36,970</b>	<b>42,020</b>
Finance costs	5	<b>(2,591)</b>	<b>(1,462)</b>
Share of profit/(losses) of:			
A jointly-controlled entity		<b>(255)</b>	<b>(127)</b>
An associate		<b>92</b>	<b>(85)</b>
<b>PROFIT BEFORE TAX</b>		<b>34,216</b>	<b>40,346</b>
Tax	6	<b>(1,975)</b>	<b>(206)</b>
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>32,241</b>	<b>40,140</b>
<b>DIVIDENDS</b>	8		
Interim		<b>–</b>	<b>4,200</b>
Proposed final		<b>9,375</b>	<b>7,000</b>
		<b>9,375</b>	<b>11,200</b>
<b>EARNINGS PER SHARE</b>	7		
– Basic		<b>HK8.99 cents</b>	<b>HK12.13 cents</b>
– Diluted		<b>N/A</b>	<b>N/A</b>

Notes:

#### 1. Impact of Recently Issued Hong Kong Financial Reporting Standards (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

HKFRS 3 “Business Combinations” applies to accounting for business combinations for which the agreement date is on or after 1 January 2005. The Group did not have any business combinations during the year and accordingly, this HKFRS has had no impact on these financial statements.

#### 2. Segment Informations

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

##### (a) Business segments

The following table presents revenue and results information for the Group’s business segments.

	Production lines and production equipment		Brand name production equipment		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	326,865	304,069	195,063	139,149	521,928	443,218
Other revenue – external	2,017	818	–	–	2,017	818
Total	<b>328,882</b>	<b>304,887</b>	<b>195,063</b>	<b>139,149</b>	<b>523,945</b>	<b>444,036</b>
Segment results	<b>10,533</b>	<b>19,204</b>	<b>29,526</b>	<b>25,856</b>	<b>40,059</b>	<b>45,060</b>
Interest and unallocated income					756	760
Unallocated expenses					<b>(3,845)</b>	<b>(3,800)</b>
Profit from operating activities					36,970	42,020
Finance costs					<b>(2,591)</b>	<b>(1,462)</b>
Share of profit/(losses) of:						
A jointly-controlled entity					<b>(255)</b>	<b>(127)</b>
An associate					<b>92</b>	<b>(85)</b>
Profit before tax					34,216	40,346
Tax					<b>(1,975)</b>	<b>(206)</b>
Net profit from ordinary activities attributable to shareholders					<b>32,241</b>	<b>40,140</b>

##### (b) Geographical segments

The following table presents revenue information for the Group’s geographical segments.

	Hong Kong		Mainland China		European Union		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	<b>91,742</b>	<b>115,035</b>	<b>414,588</b>	<b>315,875</b>	<b>10,045</b>	<b>4,645</b>	<b>5,553</b>	<b>7,663</b>	<b>521,928</b>	<b>443,218</b>

#### 3. Turnover, Other Revenue and Gains

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 a construction contract. All significant intra-group transactions have been eliminated on consolidation.

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

	2005 HK\$'000	2004 HK\$'000
<b>Turnover</b>		
Sale of goods	<b>508,046</b>	<b>437,227</b>
Construction contracts	<b>13,882</b>	<b>5,991</b>
	<b>521,928</b>	<b>443,218</b>
<b>Other revenue</b>		
Interest income	<b>329</b>	<b>238</b>
Gross and net rental income	<b>83</b>	<b>83</b>
Service income	<b>980</b>	<b>438</b>
Others	<b>954</b>	<b>819</b>
	<b>2,346</b>	<b>1,578</b>
<b>Gains</b>		
Exchange gains, net	<b>427</b>	<b>–</b>
	<b>2,773</b>	<b>1,578</b>

#### 4. Profit from Operating Activities

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

	2005 HK\$'000	2004 HK\$'000
Cost of inventories sold	<b>399,645</b>	<b>339,139</b>
Auditors’ remuneration	<b>825</b>	<b>900</b>
Depreciation	<b>15,655</b>	<b>14,637</b>
Minimum lease payments under operating leases in respect of land and buildings	<b>2,245</b>	<b>961</b>
Staff costs (excluding directors’ remuneration):		
Wages and salaries	<b>45,775</b>	<b>42,356</b>
Pension scheme contributions	<b>882</b>	<b>862</b>
	<b>46,657</b>	<b>43,218</b>
Less: Amount included in research and development costs	<b>–</b>	<b>(2,712)</b>
	<b>46,657</b>	<b>40,506</b>
Amortisation of technical know-how <sup>#</sup>	<b>5,499</b>	<b>5,398</b>
Research and development costs	<b>–</b>	<b>6,755</b>
Surplus on revaluation of an investment property	<b>(720)</b>	<b>(100)</b>
Deficit/(surplus) on revaluation of leasehold land and buildings	<b>(41)</b>	<b>14</b>
Provision/(write-back of provision) for doubtful debts	<b>2,630</b>	<b>(6,147)</b>
Foreseeable losses on construction contracts <sup>#</sup>	<b>4,466</b>	<b>–</b>
Loss on disposal of fixed assets	<b>30</b>	<b>48</b>
Foreign exchange losses/(gains), net	<b>(427)</b>	<b>64</b>

<sup>#</sup> Included in “Cost of sales” on the face of the consolidated profit and loss account

#### 5. Finance Costs

	Group	
	2005 HK\$'000	2004 HK\$'000
Interest on bank loans wholly repayable within five years	<b>2,363</b>	<b>1,327</b>
Interest on finance leases	<b>228</b>	<b>135</b>
	<b>2,591</b>	<b>1,462</b>

#### 6. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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.

	2005 HK\$'000	2004 HK\$'000
Group:		
Current – Hong Kong		
Charge for the year	<b>10,869</b>	<b>7,567</b>
Current – Elsewhere		
Charge for the year	<b>727</b>	<b>734</b>
Overprovision in prior years	<b>(7,826)</b>	<b>(8,699)</b>
Deferred	<b>(1,812)</b>	<b>604</b>
	<b>1,958</b>	<b>206</b>
Share of tax attributable to:		
An associate	<b>17</b>	<b>–</b>
Total tax charge for the year	<b>1,975</b>	<b>206</b>

#### 7. Earnings Per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$32,241,000 (2004: HK\$40,140,000) and the weighted average of 358,767,123 (2004: 330,843,836) ordinary shares in issue during the year.

No diluted earnings per share for both the current and prior years has been calculated as no diluting events existed during these years.

#### 8. Dividend

The Board recommends a final dividend of HK2.5 cents (2004: HK2.0 cents) per share for this financial year and is subject to the approval by the shareholders in the Annual General Meeting.

#### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company, will be closed from 22 August 2005 to 24 August 2005 (both days inclusive), during which period no transfer of shares will be registered.

In order to qualify for the proposed final dividend and 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 G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 pm on 19 August 2005.

#### MANAGEMENT DISCUSSION AND ANALYSIS

##### Financial Results

Summary of the financial results of the Group for the year ended 31 March 2005 are as follows:

- Turnover was approximately HK\$522 million (2004: HK\$443 million), represented an increase of approximately 18%.
- Profit before tax was approximately HK\$34 million (2004: HK\$40 million).
- Net profit from ordinary activities attributable to shareholders was approximately HK\$32 million (2004: HK\$40 million).
- Basic earnings per share was approximately HK8.99 cents (2004: HK12.13 cents).

##### Liquidity and Capital Structure

As at 31 March 2005, the Group had current assets of HK\$323 million (2004: HK\$298 million) mainly comprising prepayments, deposits and other receivables of approximately HK\$12 million (2004: HK\$31 million), inventories of approximately HK\$85 million (2004: HK\$80 million), trade receivables of approximately HK\$153 million (2004: HK\$117 million) and cash in banks of HK\$71 million (2004: HK\$68 million). The Group had current liabilities of approximately HK\$187 million (2004: HK\$205 million). The current ratio increased from approximately 1.5 as at 31 March 2004 to 1.7 as at 31 March 2005.

At 31 March 2005, the Group had total assets of approximately HK\$504 million (2004: HK\$478 million) and total liabilities of approximately HK\$191 million (2004: HK\$213 million). The gearing ratio calculated as a percentage of debt to equity was 12% (2004: 18%).

##### Financial Resources

At 31 March 2005, the Group had floating interest-bearing bank borrowings of approximately HK\$35 million (2004: HK\$41 million), of which HK\$33 million (2004: HK\$38 million) are denominated in Renminbi and mainly used for the PRC’s operating expenses and working capital. The Group’s bank borrowings are all repayable within 1 year. At 31 March 2005, the Group’s bank borrowings were secured by (i) first legal charges on certain of the Group’s leasehold land and buildings and its investment property located in Hong Kong; (ii) a first legal charge on a motor vehicle of the Group; and (iii) corporate guarantees provided by the Company.

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 2005.

At 31 March 2005, cash and bank balances amounted to approximately HK\$69 million (2004: approximately HK\$66 million), of which approximately HK\$20 million (2004: approximately HK\$24 million) are denominated in Renminbi and the majority of the remaining balances are denominated in Hong Kong dollars.

Contingent Liabilities

As at the balance sheet date, the Company has outstanding guarantees given to banks to secure general banking facilities granted to the Group in the amount of approximately HK\$219 million (2004: HK\$161 million), out of which approximately HK\$92 million (2004: HK\$59 million) had been utilised by the Group at the balance sheet date.

During the year, a customer of a subsidiary of the Company filed a civil complaint against the subsidiary in the District Court of Zengcheng, the PRC (the “Action”). In the Action, the customer alleged that the subsidiary had breached certain conditions in a construction contract (the “Contract”) including delay in assembling a production line. In the Action, the customer 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 the subsidiary. The subsidiary was defending against the Action and has counter-claimed the customer for approximately RMB6,116,000 as compensation of costs incurred for the production line and the related legal costs against the customer.

Based on the advice from our PRC legal adviser, the directors are of the opinion that the Action claim is unlikely to succeed based on the merits of the case and therefore, the directors consider that no material liability is likely to result therefrom.

Capital Commitments

As at 31 March 2005, the Group had commitments in respect of equity injections into its PRC subsidiaries and the jointly-controlled entity amounting to approximately HK\$10 million (2004: HK\$13 million) and nil (2004: 5 million), respectively.

Capital Commitments are to be financed by internal resources.

Business Review

The Group’s overall business development for the financial year under review had been satisfactory with a sustainable turnover growth. Current year’s turnover amounted to HK\$521,928,000, representing an increase of 18 per cent from the previous year’s. Such a hike was attributed to two main reasons. Firstly, our market and the overall economy had been recovering from the SARS gloom in 2003, which helped to enlarge our market share. Secondly, the European Union’s (“EU”) new directive on environmental protection to be effective next year prohibits the use of lead soldering machines. The demand for “lead-free” equipment usage had been driving the rapid growth of lead-free soldering equipment produced by the Group.

The Group’s gross profit for the year under review was approximately HK\$100,392,000, which was basically at the same level of that of the previous year. The gross profit margin decreased by 2 percentage points to 19 per cent. The gross profit did not grow in tandem with the turnover movement was a result of significant upsurge in prices of raw materials such as steel, aluminium and spare parts. The increasingly competitive market environment and the accompanied pressure on product prices had exerted pressure on the Group’s profit margin.

By market analysis, Hong Kong and Mainland China accounted for 19 and 79 per cent of the Group’s turnover respectively for the current financial year, while the rest was derived from exports to EU.

Performance Analysis

As an upstream industrial manufacturer, the Group is principally engaged in the supply of production equipment for manufacturers in electronic 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.

1. Electronics Assembly Equipment

Electronics assembly equipment is the Group’s core business, which includes the manufacture 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 sales accounted for approximately 70 per cent of the Group’s turnover in 2004-2005.

a. Soldering Equipment

The Group is principally engaged in design, manufacture and trading of soldering equipment. The increase in sales was mainly attributed to the EU declaration of a new directive on environmental protection, requiring all imported electronic products to be lead-free, with effect from 1 July 2006. Since most of electronic product manufacturers in China were using lead soldering equipment, in order to comply with EU’s new directive, the manufacturers would have to replace their facilities with lead-free equipment. In addition, the demand for electronics assembly equipment continued to be increasing as the Chinese economy carried on its growth momentum.

The Group had set up a jointly-controlled entity with (“JV”) production plant in Shenzhen with Rehm-Anlagenbau GmbH, a renowned German soldering equipment producer, specializing in high precision reflow soldering equipment.

The production plant was commenced full operation in July 2004, enhancing the Group’s share and status in the high-ended soldering market as well as its R & D capability. Given its advanced technological level, the gross profit margin of the soldering equipment was much higher than that of the Group’s conventional products.

b. Pick and Place Machines

Demand for pick and place machines in China in recent years experienced a rapid growth. The Group is principally engaged in the distribution of pick and place machines of overseas well-known brands such as Samsung Techwin. The Group is the exclusive distributor of Samsung Techwin pick and place machines in China and Hong Kong. The Group has been ranked top distributor of Samsung Techwin pick and place machines with the highest turnover for eight consecutive years. Such machine is one of the best-selling brands in China’s medium-end pick and place machine market. To broaden its customer base, the Group will also distribute high-speed pick and place machines of Simens to penetrate different market segment.

c. Screen Printer

To expand the scale of screen printer business, the Group had strengthened the R & D, and production capacity of screen printers. In October 2003, the Group won the Hong Kong Awards for Industry with its self-developed fully vision automatic printer (Model no: SEM-668), demonstrating the Group’s R & D capability reaching international standards. Production and trading of SEM-668 screen printer in the year under review has been contributing to the rapid growth in this business.

2. Automated Production Line

The Group provides automated production line solution to its customers in addition to the supply of production equipment and 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.

3. Semiconductor Packaging Equipment

Semiconductor packaging was a relatively new business of the Group that reported rapid sales growth in year under review. This is mainly due to the Group’s close-to-mature COB semiconductor packaging technology.

The Group’s semiconductor packaging business covers two main types of product: Chip on Board (“COB”) and Chip on Glass (“COG”) wire bonding equipment. The Group’s COB wire bonding equipment has a comparative price advantage over those imported brands with similar functionality. The Group has worked with a Japanese manufacturer to develop COG wire bonding machines. Currently, the COG wire bonding machine market in China is dominated by Japanese and Korean products. The Group is expected to become a major supplier capitalising on its low production cost.

4. Sheet Metal Fabrication

The Group’s sheet metal fabrication business was well developed and generated favourable cashflow. Apart from supplying metal parts for internal consumption, the business had been providing metal parts for medium- to high-end products for world-renowned brands.

Prospects

As China’s electronic information product industry is maintaining a fast growing pace and its EMS industry is gradually developing and gaining momentum and the trend of producing portable and smaller electronic products and lead-free production requirements, China’s SMT equipment market will experience a rapid growth in the coming five years.

According to CCID Consulting’s report, the annual growth rate of China’s SMT equipment market from 2005 to 2009 will be 16 per cent. In 2009, the size of China’s SMT equipment market will be RMB46,540 million, accounting for 42.8 per cent of the global SMT market. As the largest soldering equipment producer in Hong Kong and mainland China, the Group will benefit from the rapid growth of soldering equipment market.

The global trend of adopting “lead-free” electronic equipment, driven by the world’s mounting environmental concern has brought tremendous opportunity for the Group, who is a pioneer in the manufacture of lead-free electronics assembly equipment in China. The Group is aware of this trend several years ago and had since started the development of lead-free equipment. Lead-free soldering machine accounted for less than 5 per cent of the Group’s total sales of soldering equipment in 2002. The percentage increased to the present 50 per cent now. It is expected that the PRC soldering equipment market will have a growth of 65 per cent and 29 per cent in 2005 and 2006 respectively. The Group’s roadmap for lead-free equipment is expected to bring significant return for the Group in the coming years.

The Group continued to launch new models of lead-free soldering equipment to the market to maintain its competitiveness, as more and more renowned foreign soldering equipment manufacturers relocated their production bases to China. To maintain the competitive edge in product technology and to remain a price competitiveness through austere cost control measures, the Group has entered into a research collaboration with Harbin Institute of Technology and other tertiary institutions.

Meanwhile, in order to reposition its products in the market and uplift their technological standards, the Group will strive to capitalise on its joint venture with Rehm-Anlagenbau, a renowned Germany-based soldering equipment manufacturer. We expect to have a dominant position in different segments of the market.

With regards to the pick and place machines, CCID Consulting estimated an over 40 per cent growth in the China’s pick and place machine market in the coming year with demand constantly on medium-to-low speed products. In response to the market, the Group will continue to focus on the distribution of Samsung Techwin pick and place machines and to achieve a dominant position in expanding mid-range product market. Having established a presence in the Pearl River Delta region, the Group will seek its future development in the Yangtze Delta and Bohai regions, the two fastest-growing markets in Mainland China. The Group seeks to have a significant share in China’s pick and place machine market within three to five years.

Moreover, CCID Consulting estimated a more than 60 per cent and 30 per cent growth of PRC’s screen printer market in 2005 and 2006 respectively. To expand its sales of screen printers, the Group has been actively developing advanced, high-capacity type of printers. It has also entered into a research collaboration with a leading institution, with aims to speed up the R & D process. The Group expects to launch a new generation of printers early next year.

Looking forward, China’s manufacturing industry will continue to expand and is expected to lead to a stable growth in automated production line equipment market in China. Suneast will focus on the markets with projects of considerable scale, and will seek to improve its profit margin by soliciting orders from the automobile industry.

With regards to the semiconductor packaging business, we expect a tremendous growth in COB business in the coming year generated by Suneast’s existing nation-wide sales network and its existing clientele of other products of the Group. We will take advantage of our low production cost to become one of the major suppliers of COG wire bonding equipments.

With a solid development strategy on hand, the Group is well positioned to grasp the opportunities generated by rapid market growth, and to expand the shares of all of its products in their respective markets.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2005, 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 provide provides staff benefits including medical scheme, 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.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”), as set out in Appendix 14 of the Rules Governing the Listing of the Securities on the Stock Exchange (the “Listing Rules”), throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company’s bye-laws.

AUDIT COMMITTEE

The Company has an audit committee (the “Committee”) which was established in compliance with the Rule 3.21 of the Listing Rules, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The current Committee comprises the three independent non-executive directors of the Company.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

All information required by paragraph 45(1) to 45(3) of Appendix 16 of the Listing Rules of the Listing rules in force prior to 31 March 2004, which remain applicable to the result announcement in respect of accounting periods commencing before 1 July 2004 under the transitional arrangements, will be published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) 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, 26 July 2005

\* For identification purpose only