



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 2004

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 2004 together with comparative figures for the previous corresponding year as follows:

		2004	2003
	Notes	HK\$'000	HK\$'000
TURNOVER	3		
Continuing operations		443,218	362,505
Discontinued operations		–	139,567
		<u>443,218</u>	<u>502,072</u>
Cost of sales		<u>(349,330)</u>	<u>(447,901)</u>
Gross profit		93,888	54,171
Other revenue	3	1,578	2,066
Selling and distribution costs		(18,997)	(31,017)
General and administrative expenses		(41,220)	(53,536)
Other operating expenses, net		6,771	(14,733)
Gain on disposal of discontinued operations		–	379
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	<u>42,020</u>	<u>(42,670)</u>
Finance costs	5	<u>(1,462)</u>	<u>(1,976)</u>
Share of losses of:			
A jointly-controlled entity		(127)	–
An associate		(85)	–
PROFIT/(LOSS) BEFORE TAX		<u>40,346</u>	<u>(44,646)</u>
Tax	6	<u>(206)</u>	<u>(890)</u>
Continuing operations		(206)	(890)
Discontinued operations		–	(680)
		<u>(206)</u>	<u>(1,570)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>40,140</u>	<u>(46,216)</u>
DIVIDENDS			
Interim		4,200	–
Proposed final		7,000	–
		<u>11,200</u>	<u>–</u>
EARNINGS/(LOSS) PER SHARE	7		
– Basic		<u>HK12.13 cents</u>	<u>HK(14.81 cents)</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

Notes:

1. Impact of a revised Hong Kong Statement of Standard Accounting Practice (“SSAP”)

SSAP 12 (Revised) “Income taxes” is effective for the first time for the current year’s financial statements. SSAP12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

Details of the impact of the revised SSAP on the financial statements of the Group are set out in the annual report.

2. Turnover and segment results

(a) Business segments

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

	Continuing operations				Discontinued operations				Consolidated	
	Production lines and production equipment		Brand name production equipment		Consumer products		Sub-contracting services		2004	2003
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	304,069	268,778	139,149	73,727	–	119,970	–	19,597	443,218	502,072
Other revenue – external	818	448	–	–	–	–	–	–	818	448
Total	<u>304,887</u>	<u>269,226</u>	<u>139,149</u>	<u>73,727</u>	<u>–</u>	<u>119,970</u>	<u>–</u>	<u>19,597</u>	<u>444,036</u>	<u>502,520</u>
Segment results	<u>19,204</u>	<u>(25,775)</u>	<u>25,856</u>	<u>9,372</u>	<u>–</u>	<u>(11,080)</u>	<u>–</u>	<u>(14,541)</u>	<u>45,060</u>	<u>(42,024)</u>
Interest and unallocated income									760	1,997
Unallocated expenses									(3,800)	(2,643)
Profit/(loss) from operating activities									42,020	(42,670)
Finance costs									(1,462)	(1,976)
Share of losses of:										
A jointly-controlled entity									(127)	–
An associate									(85)	–
Profit/(loss) before tax									40,346	(44,646)
Tax									(206)	(890)
Net profit/(loss) from ordinary activities attributable to shareholders									<u>40,140</u>	<u>(46,216)</u>

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

	Hong Kong		Mainland China		European Union		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	115,035	97,195	315,875	284,096	4,645	96,141	7,663	24,640	443,218	502,072

3. Turnover and other revenue

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 and other revenue is as follows:

	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sales of goods	437,227	482,475
Provision of sub-contracting services	–	19,597
Construction contract	5,991	–
	<u>443,218</u>	<u>502,072</u>
Other revenue		
Interest income	238	622
Gross and net rental income	83	84
Others	1,257	1,360
	<u>1,578</u>	<u>2,066</u>
	<u>444,796</u>	<u>504,138</u>

4. Profit/(loss) from operating activities

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

	2004	2003
	HK\$'000	HK\$'000
Cost of inventories sold	339,139	433,057
Cost of services provided	–	14,682
Auditors’ remuneration	900	720
Depreciation	14,637	25,562
Minimum lease payments under operating leases:		
Land and buildings	961	3,715
Machinery and equipment	–	293
Staff costs (excluding directors’ remuneration)		
Wages and salaries	42,356	58,379
Pension scheme contributions	862	770
	<u>43,218</u>	<u>59,149</u>
Less: Amount included in research and development costs	<u>(2,712)</u>	<u>(715)</u>
	<u>40,506</u>	<u>58,434</u>

Amortisation of technical know-how*

	2004	2003
	HK\$'000	HK\$'000
Research and development costs	5,398	5,134
Deficit/(surplus) on revaluation of an investment property	6,755	2,355
Deficit on revaluation of leasehold land and buildings	(100)	130
Provision/(write-back of provision) for doubtful debts	14	34
Provision for slow-moving inventories	(6,147)	14,486
Loss on disposal of fixed assets	–	1,893
Foreign exchange losses, net	48	83
	<u>64</u>	<u>888</u>

* The amortisation of technical know-how for the year is included in “Cost of sales” on the face of the consolidated profit and loss account.

As at 31 March 2004, the Group had no forfeited contributions available to offset its employer contributions to the pension scheme in future years (2003: Nil).

5. Finance costs

	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	1,327	1,694
Interest on finance leases	135	282
	<u>1,462</u>	<u>1,976</u>

6. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere have been calculated at the rates of taxes prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2004	2003
	HK\$'000	HK\$'000

Group:

Current – Hong Kong		
Charge for the year	7,567	–
Current – Elsewhere		
Charge for the year	734	2,868
Over provision in prior years	(8,699)	(1,978)
Deferred	604	680

Total tax charge for the year	<u>206</u>	<u>1,570</u>
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7. Earnings/(loss) per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$40,140,000 (2003: net loss of HK\$46,216,000) and the weighted average of 330,843,836 (2003: 312,000,000) shares in issue during the year.

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

DIVIDEND

The Board recommend a final dividend of HK2 cents per share for this financial year and is subject to the approval by the shareholders in the Annual General Meeting (2003: nil).

The register of members of the Company, will be closed from 1 September 2004 to 3 September 2004 (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 31 August 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

Summary of the financial results of the Group for the year ended 31 March 2004 are as follows:

- Turnover of continuing operations was approximately HK\$443 million (2003: HK\$363 million), represented an increase of approximately 22%.
- Profit before tax was approximately HK\$40 million (2003: loss before tax of HK\$45 million).
- Net profit from ordinary activities attributable to shareholders was approximately HK\$40 million (2003: net loss from ordinary activities attributable to shareholders of HK\$46 million).
- Basic earnings per share was approximately HK12.13 cents (2003: basic loss per share of HK14.81 cents).

Liquidity and Capital Structure

As at 31 March 2004, the Group had net current assets of HK\$93 million (2003: HK\$43 million) mainly comprising prepayments, deposits and other receivables of approximately HK\$31 million (2003: HK\$11 million), inventories of approximately HK\$80 million (2003: HK\$49 million) and trade receivables of

approximately HK\$117 million (2003: HK\$57 million). The Group had current liabilities of approximately HK\$205 million (2003: HK\$119 million). The current ratio increased from approximately 1.4 as at 31 March 2003 to 1.5 as at 31 March 2004.

At 31 March 2004, the Group had total assets of approximately HK\$478 million (2003: HK\$349 million) and total liabilities of approximately HK\$213 million (2003: HK\$144 million). The gearing ratio calculated as a percentage of long term debt to equity was 1.7% (2003: 11%).

Financial Resources

At 31 March 2004, the Group had floating interest-bearing bank borrowings of approximately HK\$41 million (2003: HK\$28 million) and HK\$38 million (2003: HK\$19 million) of which are denominated in Renminbi and mainly utilised in the PRC's operational expenses and working capital. The Group's bank borrowings are all repayable within five years. At 31 March 2004, 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) 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 2004.

At 31 March 2004, cash and bank balance amounted to approximately HK\$66 million (2003: approximately HK\$46 million), of which approximately HK\$24 million (2003: approximately HK\$17 million) are denominated in Renminbi and the majority of the remaining balances are denominated in Hong Kong dollars.

Capital Commitment is to be financed by internal resources.

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\$161 million (2003: HK\$107 million), out of which approximately HK\$59 million (2003: HK\$59 million) had been utilized by the Group at the balance sheet date.

The Group did not have any significant contingent liabilities at the balance sheet date (2003: Nil).

Capital commitment

As at 31 March 2004, the Group had commitment in respect of equity injections to its PRC subsidiaries and the jointly-controlled entity amounting to HK\$12,800,000 (2003: HK\$4,500,000) and HK\$5,000,000 (2003: Nil), respectively.

BUSINESS REVIEW

1. Automatic Pick and Place machine

The business growth in the circuit board assembly equipment sector for the year was encouraging which was mainly derived from the increase in demand for Automatic Pick and Place machine. From the fourth quarter of 2003 onwards, orders from customers are not affected by the Chinese New Year holiday (which was traditionally a low season in the past), and continue to grow steadily. We estimate that the demand from customers of a wider range of sectors will further increase which will bolster the performance of the Group. The fully-automated stencil printer developed by the Group received Hong Kong Award for Industry (Machinery and Equipment Category) in October 2003 recognizing the Group's research and development capability. The Group will continue to develop a wider variety of electrical equipments so as to explore local and overseas market with its own brand.

2. Soldering Equipment

Since the lead-free regulation becomes effective on 1 July 2006 in Europe and China, customers have tended to purchase lead-free soldering machine. We have noticed that the sales of

lead-free soldering equipment as a percentage of total sales of soldering equipment has risen to nearly 50% from approximately 30% in early 2003. We expect the relevant trend of sales volume will keep on rising. As the pricing and gross profit of lead-free soldering machine are both higher than those of lead soldering machine, it will contribute positively to the Group's profits in the coming future.

In addition, in order to aim at the target of developing towards high value products, the Group has formed a joint venture company "Rehm Suneast International Limited" with a Germany enterprise in November 2003 and set up a production base in PRC. The business partner from Germany provides technical support to manufacture high value and efficient soldering equipments, so as to meet the needs of large-scale and foreign owned electrical manufacturers. It is expected that the joint venture company will operate in full scale in August 2004. The ultimate aim of the joint venture company is to introduce a complete set of printed circuit surface mount equipments, enhance the production quality to international standards as well as expand the high-end market so as to increase the profit margin and earning of the Group.

3. Wire bonding equipment

The Group has been exploring into potential high-value business and has entered into the micro precision wire bonding machine for semiconductors sealing equipments market. The technology is going to be mature and our clients has gradually developed confidence in us. Although the business is still in the initial stage, there is not many competitors in the market and there is a lot of restrictions and barriers for market penetration. We believe that the market will have positive potential for our development.

4. Automated production equipment and logistics delivery center

Even though the business of automated production line of the Group is facing a increasingly mature market, it has been developing its business towards the development of automobile electrical auxiliary equipment and the manufacture of auxiliary facilities since 2001. Since the business for automobile electrical and the manufacture of auxiliary facilities is high-value business and the production scale is large. Therefore, the business of automated production line can sustain business growth and fully utilize the synergy effects with the core business in sales. We believe that the Group has established its exposure in the market and has become one of the five largest suppliers of the market in China.

Development direction

1. With the market for electrical business is recovering, the production activities of the business, particularly the suppliers for Electronic Manufacturing Service ("EMS") which has great potential is becoming more active. The Group will develop it business vertically and horizontally and to pursue a larger market share actively, at the same time it will also promote its one-stop production equipment service to its existing customers.
2. In addition, as the counterparts of the Group always developed their business in the southern China market in the past but the market there is already very mature, the Group will actively capture clientele in the Changjiang River Delta which has rapid economical development in recent years.
3. The Group will continue to enhance its developments in high-end and overseas market by joint venture and self-development of high-value added products.
4. The Group will continue to strengthen its leading position in lead-free soldering equipment in China in order to meet the increasing demand in the market. Meanwhile, the Group will also alert on the changes in the environment so as to explore relevant products to meet market demand. For instance, we are developing soldering equipment which is environment friendly and energy saving.
5. Since the year 2002, the Group has developed its business in accordance with the clients demand in electronic production equipment in the production process. For example, it set up

companies which focus on precision plate work to manufacture the metal covers and accessories for customers. Apart from meeting the demand in accessories processing, this will expand the Group's business scale continuously and to develop a production chain. The Group will develop its business in this direction.

Prospects

At present, quite a few research institutes are optimistic about the semiconductors industry for the year 2004 to the year 2007. According to the estimation of Semi Conductor Industry Association ("SIA") estimates that the growth rate for the sales of semi-conductor market in the year 2004 will increase by 20% and will be able to maintain an average growth rate of 10% or above from 2005 to 2007. As the semi-conductor market is leading the electronic industry, we estimate that the electronic manufacturing industry still can grow steadily in the coming three to four years. The Group notices that many foreign and local suppliers of Electronic Manufacturing Service ("EMS") have been expanding actively and these trends has protected the future performance of the major business of the Group.

With the electronic industry improving and our strategies for business growth, we believe that there will be substantial growth in profits in the coming three years.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2004, the Group employed approximately 1,600 full time employees of which approximately 1,550 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, 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 accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Committee comprises the two 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 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 2004

* For identification purpose only