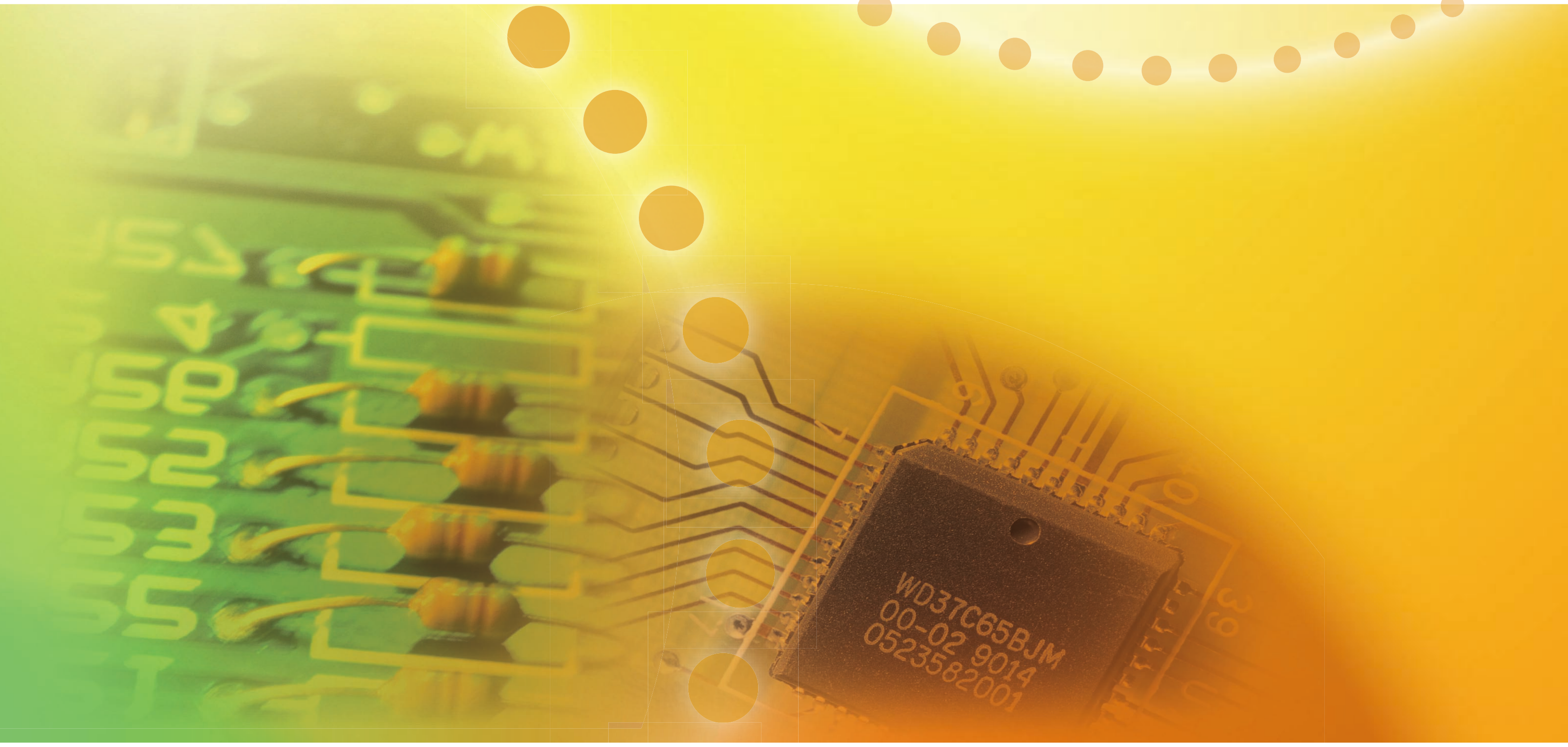
Annual Report 2007



Sun East Technology (Holdings) Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 365

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. BUT Tin Fu *(Chairman)*

Mr. BUT Tin Hing

Mr. LEUNG Cheong *(Chief Executive Officer)*

Mr. LEUNG Kuen, Ivan

Independent Non-executive Directors

Mr. SEE Tak Wah

Prof. XU Yang Sheng

Mr. YAU Wing Keung, Frankie

Members of the Audit Committee

Mr. SEE Tak Wah

Prof. XU Yang Sheng

Mr. YAU Wing Keung, Frankie

Company Secretary

Mr. TUNG Tat Chiu, Michael

Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal Place of Business

Unit H, 1st Floor, Phase 4

Kwun Tong Industrial Centre

Nos. 436 – 446 Kwun Tong Road

Kwun Tong

Kowloon

Hong Kong

Principal Banker

DBS Bank (Hong Kong) Limited

Units 1209-18 Miramar Tower

132-134 Nathan Road

Tsimshatsui, Kowloon

Hong Kong

Auditors

Grant Thornton

Certified Public Accountants

Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited

Bank of Bermuda Building

6 Front Street

Hamilton HM 11

Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited

26/F., Tesbury Centre

28 Queen's Road East

Hong Kong

Chairman's Statement

In the past two years the Group experienced a lot of challenges and difficulties and we responded by putting in enormous efforts with the primary objective of enhancing our core competitiveness and maintaining our leading position in the industry. A series of measures have been taken to improve all major areas of our operation including production, marketing and sales, technology, cost control, procurement and human resources management. To quote a few examples, we have intensified our marketing initiatives and established new distribution channels both in the Mainland and overseas; we strengthened our technological development efforts through closer cooperation with universities and science institutes and by exploring opportunities to form strategic alliances with overseas technology partners; we streamlined our operational structure, brought in performance-related reward system and improved our human resources capabilities; we took determined actions to terminate or scale down areas of our operation which have not been performing satisfactorily.

I am pleased to see that positive results are now beginning to flow from the efforts that we put in as described above, and the Group has returned to profitability in the year under review. Turnover has returned to a rising trend and, despite the tremendous cost pressure the Group has been experiencing, total operating expenses have come down. Our core SMT business as well as the sheet metal fabrication operation have both recorded satisfactory growth which is encouraging.

During the year, we strengthened our capital base and working capital position by means of a successful rights issue of shares in the Company. We have also reduced our already low level of borrowings, and the Group's major assets remained unpledged. The Group's financial position is being maintained in a healthy state.

To conclude, Sun East has laid a sound foundation in production capabilities, distribution network and technological advancement. Together with the strong financial position we have maintained, the Group has built up a solid platform on which to grow and to capture the opportunities that lie ahead of us. I also believe that the most difficult times are now behind us, and am confident that the Group is back on a profitable track. Finally, I would like to take this opportunity to thank shareholders, staff and business partners for their invaluable support during the year.

But Tin Fu
Chairman

Hong Kong
26 July 2007

Management Discussion and Analysis

Financial Results

Summary of the financial results of the Group for the year ended 31 March 2007 are as follows:

– Turnover was approximately HK$500 million (2006: HK$458 million), represented an increase of approximately 9.2%.

– Profit before income tax was approximately HK$0.8 million (2006: Loss before income tax of HK$38 million).

– Profit for the year was approximately HK$2.2 million (2006: Loss of HK$37 million).

– Basic earnings per share was approximately HK0.49 cent (2006: Basic loss per share of HK8.73 cents).

Business Review

During the year under review, the Group adopted various measures to adjust and improve its business in response to changes of market environment and industry development. These include strengthening marketing and expansion efforts as to accelerate industrial deployments in emerging economic regions such as the Yangtze River Delta; strengthening cooperation with Samsung Techwin of Korea as well as domestic and overseas research institutes as to enhance product quality and technological development capability; implementing an overall budget management system and tightening control over manufacturing costs and operation expenses, and strengthening the management team by continuously recruiting quality technical and managerial staff. These efforts have resulted in improved business performance in the year, as reflected in the increase in turnover, gross profit and the turnaround from loss to profit.

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 76 percent and 15 percent of the Group's turnover for the year, while the rest was derived 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 has strived to continuously enhance competitiveness and profitability through marketing efforts and technological development. In enhancing marketing and expansion capability, the Group has adjusted its sales system structure and marketing strategy, and carried out strategic consolidation over its existing products with a strategy combining brand management, high added-value, large clients and standardized production. The Group also recruited specialized business development managers, introduced a client relationship management (CRM) system and established training programs and incentive schemes for sales staff, which effectively contributed to the increase in market share. The Group has also accelerated industrial deployments and business expansion into emerging economic regions such as the Yangtze River Delta and the Beijing-Tianjin-Tangshan economic zone around the Bohai region, as well as actively built up overseas sales channels, which effectively expanded the Group's business scopes and subsequent development potential.

On the technology front, to further upgrade the products' technological level and consolidate its leading market position, the Group formed partnership with various renowned universities and high-tech companies in China and abroad. The Group cooperated with the Chinese University of Hong Kong to develop intelligent temperature control systems for the reflow system to improve the real-time temperature control system for the new-generation of reflow soldering equipment. The Group also developed core modules for high-speed precision movement control system and 3D high-definition graphic identification system jointly with universities and science institutes, and it will transplant such core modules to a new-generation of soldering machines and screen printers etc as to enhance the movement control precision and graphic identification capabilities of Sun East products.

2. Automated Production Line

In addition to the provision of production equipment, fully automated production solutions of automated assembly and production lines, the Group introduced advanced technologies and developed its own innovation, successfully researched and developed and produced environmental-friendly cleaning machine which was suitable for each and every industry. It helped to ensure future growth in revenues. In order to increase the competitiveness and market share of the environmental-friendly cleaning machines, and develop itself as one of the leading and ever improving suppliers nationally and internationally, management of the Group specifically deployed the talents in the Group to drive the Group to scale for new heights.

3. Semiconductor Packaging Equipment

Leveraging Chip on Glass ("COG") which made use of LCD, the Group reinforced its technological co-operation and communication of several Japanese and Korean enterprises in respect of LCD equipment. It helped to establish strong technological support, providing technological security for development of the relevant business in the Mainland. On this basis, the Group's independent development drove the improvement of manual COG. It arose the awareness of the Group's brandname and lowered the costs and thus seized the Mainland market step by step. Meanwhile, the Group actively explored its wire bonding machine business. The Group has developed technical co-operation with Korean counter-parts to actively prepare to research and develop accessories for die bonders together, and finally perfect the variety of its current products.

4. Sheet Metal Fabrication

The Group's sheet metal fabrication business not only catered for its own production requirements but also provided metal spare parts for various famous international customers. The momentum of this business was strong as reflected in the increase in European orders. The increase in intelligent soldering equipment in sheet metal workshops could alleviate the reliance on manual operation and improve the quality and efficiency of sheet metal fabrication. It enabled the Group to accept large orders with high quality and added values.

Prospects

In face of opportunities and challenges, the Group has taken full advantage of the State's policies for supporting equipment manufacturers in order to preserve and enhance its core competitiveness and market share and thus improve its results. It has in turn further boosted the Group's cost advantage and competitiveness in the industry. According to industry forecast, income from Electronic Manufacturing Services ("EMS") in China would amount to US$66.7 billion in 2007, representing 82% of the EMS market in Asia Pacific. In respect of EMS and Original Engineering Manufacturing ("OEM") collectively, income of the Mainland China and Taiwan together will increase to US$148 billion in 2007. It is anticipated that income from OEM of the Mainland China and Taiwan would account for 58% of the global income from OEM in 2007. In view of this, the Group focuses on SMT business, and develop this business as its core competitiveness. The Group would also integrate the Chip On Board/Chip On Glass business into the such products as electronic wires, automated logistics storage and cleaning machines. The Group would develop other products such as semiconductors, electronic wires, non-standardized electronic intelligent installation system and logistics solutions. The machine processing, sheet metal, spraying, plating, mold design and processing businesses would be integrated to be a international precision machine processing center as well as a processing platform. The Group has devoted itself to boost the Group's profitability as a whole so as to provide satisfactory returns for its shareholders.

Liquidity and Capital Structure

As at 31 March 2007, the Group had current assets of HK$314 million (2006: HK$287 million) mainly comprising prepayments, deposits and other receivables of HK$9 million (2006: approximately HK$23 million), inventories of HK$113 million (2006: approximately HK$95 million), trade and bill receivables of HK$112 million (2006: approximately HK$96 million) and cash in banks of HK$80 million (2006: HK$73 million). The Group had current liabilities of HK$179 million (2006: approximately HK$169 million). The current ratio increase from 1.69 as at 31 March 2006 to 1.75 as at 31 March 2007.

As at 31 March 2007, the Group had total assets of HK$477 million (2006: approximately HK$450 million) and total liabilities of HK$186 million (2006: approximately HK$180 million). The gearing ratio (calculated as a percentage of debt to equity) was 6% (2006: 10%).

During the year, a right issue of two right shares for every five existing shares held by equity holders on the equity holder register on 7 December 2006 was made, at an issue price HK$0.12 per rights share ("Rights Issue"), resulting in the issue of 150,000,000 shares of HK$0.10 each for cash. The net proceeds from the Rights Issue after expenses amounted to approximately HK$17,100,000 and were utilised for general working capital purposes.

Financial Resources

As at 31 March 2007, the Group had fixed and floating interest-bearing bank borrowings of HK$18 million (2006: approximately HK$28 million), of which HK$18 million (2006: HK$18 million) are denominated in Renminbi and mainly used for the PRC's operating expenses and working capital. Approximately 96% of the Group's bank borrowings are repayable within one year.

Most of the transactions of the Group were made in Hong Kong dollars, Renminbi and US dollars. For the year ended 31 March 2007, the Group was not exposed to any material exchange risk as the exchange rate of Hong Kong dollars and US dollars were relatively stable under the current peg system. Further, with the natural hedging of the revenue and costs denominated in Renminbi, the Group's foreign exchange exposure in Renminbi was limited. No hedging for foreign currency transactions has been carried out during the year under review.

As at 31 March 2007, cash and bank balances amounted to HK$80 million (2006: approximately HK$73 million), of which HK$8 million (2006: approximately HK$10 million) are denominated in Renminbi and the majority of the remaining balances are denominated in Hong Kong dollars.

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$2,350,000 (2006: HK$2,020,000);

(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$2,390,000 (2006: HK$1,960,000);

(iii) corporate guarantees provided by the Company.

Employees and Remuneration Policies

As at 31 March 2007, the Group employed approximately 1,600 full time employees in the PRC and approximately 30 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.

Corporate Governance Practices

The Board of Directors and the management of the Company recognize the importance and benefits of good corporate governance practices and have adopted certain corporate governance and disclosure practices aiming at a high level of transparency and accountability. The Company is committed to continuously improving its corporate governance practices as part of its own corporate culture.

The Company has complied with the code provisions set out in Appendix 14 of the Code on Corporate Governance Practices (the 'CG Code') under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 March 2007 except for the deviations from the code provision A.4.1 as set out below.

The Board

The Board, headed by the Chairman, is responsible for the oversight of the management of the business and affairs of the Company with the objective of enhancing shareholder value. It is responsible for the formulation and the approval of the Group's development and business strategies and policies, approval of annual budgets and business plans, recommendation of dividend, and supervision of management in accordance with the governing rules. The management of the Company is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

The Board of the Company comprises a total of 7 Directors, with four Executive Directors and three Independent Non-executive Directors. More than one-third of the Board is Independent Non-executive Directors and more than one of them have appropriate professional qualifications or accounting or related financial management expertise. The composition of the Board is shown on page 10 under the subject Board Meeting attendance records. Biographies of the Directors which include relationship among members of the Board are set out on pages 15 to 16 under the subject Directors Profile.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-executive Directors are independent in accordance with the Listing Rules.

The Board (continued)

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.

Regular Board meetings are scheduled to be held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Details of Directors' attendance records of Board meetings held during the year are as follows:

Composition of the Board	**Attended**
Executive Directors	
Mr. But Tin Fu *(Chairman)*	4/4
Mr. But Tin Hing	3/4
Mr. Leung Cheong *(Chief Executive Officer)*	4/4
Mr. Leung Kuen, Ivan	4/4
Independent Non-executive Directors	
Mr. See Tak Wah	2/4
Prof. Xu Yang Sheng	2/4
Mr. Yau Wing Keung, Frankie	1/4

The Board (continued)

All Directors have full access to accurate, relevant and timely information of the Group through management and are able to obtain independent professional advices on issues whenever deemed necessary by the Directors.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the role of chairman and chief executive officer should be separated. Mr. But Tin Fu is the Chairman and Mr. Leung Cheong the Chief Executive Officer of the Group.

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. The committee has met once during the year with all members present to review the remuneration packages for all Directors.

Audit Committee

The existing Audit Committee comprises three Independent Non-executive Directors, namely, Mr. Yau Wing Keung, Frankie, Mr. See Tak Wah and Prof. Xu Yang Sheng.

The principal duties of the Audit Committee include the review of the financial reporting and internal control system of the Group, review of half-yearly and annual reports and accounts, review and monitor the appointment of the auditors and their independence, monitor compliance with statutory and listing requirements, and to engage independent legal or other advisers as it determines necessary.

During the year, two meetings were held. All members of the Audit Committee with the exception of Mr. Yau Wing Keung, Frankie attended the meetings.

Audit Committee (continued)

In discharging its responsibility, the Audit Committee has performed the following work during the year:

(i) reviewed the draft annual and interim financial statements and draft results announcements during the year;

(ii) reviewed, in conjunction with the auditors, the development of accounting standards and assessed their potential impacts on the Group's financial statements.

Model Code For Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors of the Company. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standards as set out in the Model Code for the year.

Auditors' Remuneration

For the year ended 31st March 2007, the remuneration paid to the Company's auditors, Grant Thornton, is set out as follows:

Services rendered	**Fee paid/payable**
	HK$'000
Audit services	900
Non-audit services	–
	900

Financial Reporting

The Directors acknowledge their responsibility for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and it is appropriate to adopt the going concern basis in preparing the financial statements.

Internal Control

The Board is responsible for maintaining effective internal control systems of the Group. The Group's system of internal control includes a defined management structure with limits of authority, is designed to evaluate the Group's risk, achieve the division goals and business objectives, maintain proper accounting records for the provision of financial information for internal analysis or for publication, comply with relevant legislation and regulations.

During the year, the Directors had conducted a review of the effectiveness of the systems of internal control in respect of the financial, operational ,compliance controls and risk management function of the Group.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 March				
	2007	2006	2005	2004	2003
RESULTS	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Revenue					
Continuing operations	**500,426**	458,296	521,928	443,218	362,505
Discontinued operations	**–**	–	–	–	139,567
	500,426	458,296	521,928	443,218	502,072
Profit/(loss) before tax					
Continuing operations	**828**	(38,184)	34,199	40,346	(18,449)
Discontinued operations	**–**	–	–	–	(26,197)
	828	(38,184)	34,199	40,346	(44,646)
Income tax credit/(expense)					
Continuing operations	**1,369**	1,004	(1,958)	(206)	(890)
Discontinued operations	**–**	–	–	–	(680)
	1,369	1,004	(1,958)	(206)	(1,570)
Profit/(loss) for the year attributable to equity holders	**2,197**	(37,180)	32,241	40,140	(46,216)

	As at 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	**477,208**	450,153	499,797	474,018	344,694
TOTAL LIABILITIES	**(185,507)**	(180,151)	(191,448)	(213,245)	(144,233)
	291,701	270,002	308,349	260,773	200,461

Executive Directors

Mr. BUT Tin Fu, aged 49, is the Chairman of the Group. Mr. But is responsible for overall strategic planning and the management of the Group. He joined the Group in May 1987 and has over 16 years of experience in the electronics industry. He is a brother of Mr. But Tin Hing.

Mr. BUT Tin Hing, aged 51, is a Technical Director of the Group. He established the Group in 1984 and is responsible for the Group's product development. Mr. But has over 21 years of experience in the electronics industry. He is a brother of Mr. But Tin Fu.

Mr. LEUNG Cheong, aged 46, is the Managing Director and the Chief Executive Officer of the Group and is responsible for the sales and marketing of the Group in the PRC and Hong Kong. Mr. Leung joined the Group in May 1987 and has over 16 years of experience in the electronics industry. He is a brother of Mr. Leung Kuen, Ivan.

Mr. LEUNG Kuen, Ivan, aged 50, is the Marketing Director of the Group and is responsible for research and development of equipment for production lines. He joined the Group in August 1991 and has over 11 years of experience in the mechanical engineering field. Mr. Leung holds a masters degree in precision engineering from the Hong Kong Polytechnic University. He is a brother of Mr. Leung Cheong.

Independent Non-executive Directors

Mr. YAU Wing Keung, Frankie, aged 47, graduated from the University of Hong Kong with a bachelor's degree in social science. Mr. Yau has 22 years' extensive working experience in the banking and finance industry. Previously he had held key positions at various leading financial institutions and top investment banks in Hong Kong, Australia, Shanghai and Beijing.

Independent Non-executive Directors (continued)

Prof. XU Yang Sheng, aged 49, graduated from the Zhejiang University in 1982 with a bachelor's degree in mechanical engineering and subsequently obtained a master degree in mechanical engineering therefrom in 1984. Prof. Xu obtained his doctorate degree from the University of Pennsylvania of the United States in 1989. From 1989 to 2004, he has taught in Carnegie Mellon University in the United States. Prof. Xu is Professor of Automation and Computer-Aided Engineering of the Chinese University of Hong Kong. Prof. Xu is an academician of Eurasian Academy of Sciences, a fellow of Institute of Electrical and Electronics Engineers, a fellow of Hong Kong Institute of Engineers and a council member of Chinese Association of Automation.

Mr. SEE Tak Wah, aged 44, graduated from the Management School of Waikato University of New Zealand with a first class honour in Bachelor of Management Studies and is a member of the Institute of Chartered Accountants of New Zealand and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. See has over 17 years' experience in financial and general management where he previously worked as the regional business controller of Nokia Mobile Phones Asia Pacific, the managing director of Nokia Mobile Phones Hong Kong, the chief operating officer of First Mobile Group Holdings Ltd and held key management position in the North Asia office of Philips and Siemens.

The directors present their report and the audited financial statements of Sun East Technology (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 March 2007.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the design, manufacture and distribution of production lines and production equipment, and the distribution of brand name production equipment. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's profit for the year ended 31 March 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 94.

The directors do not recommend the payment of any dividend in respect of the year.

Summary Financial Information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 14. This summary does not form part of the audited financial statements.

Property, Plant and Equipment and Investment Properties

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 15 and 16 to the financial statements, respectively.

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in notes 30 and 31 to the financial statements respectively.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 March 2007, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK$120,678,000. In addition, the Company's share premium account, in the amount of HK$87,728,000, may be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 50% of total purchases for the year and purchases from the largest supplier included therein amounted to approximately 44%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest suppliers during the year.

Directors

The directors of the Company during the year were:

Executive directors

Mr. But Tin Fu
Mr. But Tin Hing
Mr. Leung Cheong
Mr. Leung Kuen, Ivan

Independent non-executive directors

Mr. See Tak Wah*
Prof. Xu Yang Sheng*
Mr. Yau Wing Keung, Frankie*

* Members of the audit committee

Directors (continued)

In accordance with clauses 87 and 88 of the Company's bye-laws, Messrs But Tin Fu, Leung Cheong and Leung Kuen, Ivan will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

The Company has received annual confirmations of independence from all independent non-executive directors and as at the date of this report still considers them to be independent.

Directors' Biographies

Biographical details of the directors of the Company are set out on pages 15 to 16 of the annual report.

Directors' Service Contracts

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from 1 September 2000 which has continued thereafter until termination by three months' notice in writing served by either party to the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' Interest in Shares

As at 31 March 2007, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in the shares

Name of Director	Number of the Shares beneficially held	Capacity/ Nature	Approximate percentage of total shareholding %
But Tin Fu ("BTF")	5,726,000	Beneficial owner	1.09
But Tin Hing ("BTH")	1,050,000	Beneficial owner	0.20
	220,605,840	Interest of controlled corporation (Note)	42.02
	221,655,840		42.22
Leung Cheong ("LC")	1,442,280	Beneficial owner	0.27
Leung Kuen, Ivan ("LKI")	4,536,520	Beneficial owner	0.86

Note:

BTH is the beneficial owner of 50% of the issued shares in Mind Seekers Investment Limited ("Mind Seekers") and therefore BTH is deemed, or taken to be interested in the 220,605,840 Shares held by Mind Seekers for the purposes of the SFO. The entire issued share capital of Mind Seekers is beneficially owned by BTH, BTF, LC and LKI, as to 50%, 20%, 20% and 10% respectively.

Directors' Interest in Shares (continued)

(ii) Long position in the underlying shares of equity derivatives – Share Options

Name of Directors	Date of grant of Share Options	Exercise period of Share Options	Adjusted* exercise price per Share Option HK$	Number of share options: Adjusted* number after rights issue	Movement during the year (Note)	At 31 March 2007
BTF	31/08/2005	31/8/2005-29/8/2008	0.558	8,806,452	–	8,806,452
BTH	31/08/2005	31/8/2005-29/8/2008	0.558	8,806,452	–	8,806,452
LC	31/08/2005	31/8/2005-29/8/2008	0.558	8,806,452	–	8,806,452
LKI	31/08/2005	31/8/2005-29/8/2008	0.558	8,806,450	–	8,806,450
				35,225,806	–	35,225,806

Note:

No options have been granted, exercised, cancelled or lapsed during the year ended 31 March 2007.

* Under the terms of the Share Option Scheme, adjustments to the exercise price and number of securities subject to options granted so far as unexpired are required upon the completion of the right issue set out in note 31 to the financial statements.

Save as disclosed above none of the directors or any of their associates had any personal, family, corporate or other beneficial interests in the issued share capital of the Company or any of its associated corporations, as recorded in the register required to be kept under Section 352 of the SFO as at 31 March 2007.

Directors' Rights to Acquire Shares or Debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director 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 to acquire such rights in any other body corporate.

Substantial Shareholder's Interest in Shares and Underlying Shares

As at 31 March 2007, so far as was known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Long position in the Shares

Name of Shareholder		Nature of interest	Number of the Shares held	Approximate percentage of total shareholding %
Substantial Shareholder				
Mind Seekers		Beneficial owner	220,605,840	42.02
Other				
Tang Lin Mui Irene	Note	Interest of spouse	230,462,292	43.90

Note: Tang Lin Mui Irene is the spouse of BTH, and therefore she is deemed or taken to be interested in the 221,655,840 Shares and 8,806,452 Share Options that BTH is or deemed to be interested for the purposes of the SFO.

Save for the interests disclosed above, the directors are not aware of any person who had, directly or indirectly, registered an interest in the issued share capital and underlying shares of the Company that was required to be recorded under 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 year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Directors' Remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Auditors

Grant Thornton has been appointed as auditors of the Company to fill the casual vacancy following the resignation of Ernst & Young and to hold office until the conclusion of the next annual general meeting. There have been no other changes of auditors in the past three years. A resolution for the reappointment of Grant Thornton as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

But Tin Fu
Chairman

Hong Kong
26 July 2007

Grant Thornton
均富會計師行

Certified Public Accountants
Member of Grant Thornton International

To the members of Sun East Technology (Holdings) Limited

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sun East Technology (Holdings) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 26 to 94, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

26 July 2007

Consolidated Income Statement

for the year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	6	**500,426**	458,296
Cost of sales		**(424,114)**	(406,520)
Gross profit		**76,312**	51,776
Other income	6	**3,971**	3,396
Selling and distribution costs		**(25,591)**	(24,575)
Administrative expenses		**(45,384)**	(59,372)
Other operating expenses		**(8,593)**	(8,406)
Finance costs	8	**(1,513)**	(1,975)
Share of profits of :			
Jointly-controlled entity		**1,606**	952
Associate		**20**	20
Profit/(Loss) before income tax	7	**828**	(38,184)
Income tax credit	11	**1,369**	1,004
Profit/(Loss) for the year		**2,197**	(37,180)
Earnings/(Loss) per share	14		(Restated)
– Basic		**HK0.49 cent**	(HK8.73) cents
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

as at 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**143,064**	139,895
Investment properties	16	**2,350**	2,020
Prepaid land lease payments	17	**6,900**	6,752
Intangible assets	18	**467**	5,967
Interests in jointly-controlled entity	20	**9,676**	5,570
Interests in associate	21	**1,030**	1,010
Other receivables		**–**	1,850
		163,487	163,064
Current assets			
Inventories	22	**112,908**	94,958
Trade and bill receivables	23	**112,159**	95,713
Prepayments, deposits and other receivables		**8,646**	23,470
Taxes recoverable		**71**	206
Pledged cash and bank balances	24	**2,110**	2,000
Cash and cash equivalents	24	**77,827**	70,742
		313,721	287,089
Current liabilities			
Trade and bill payables	25	**93,502**	84,528
Other payables and accruals		**49,049**	41,737
Interest-bearing bank and other borrowings	26	**17,628**	21,201
Taxes payable		**19,206**	22,011
		179,385	169,477
Net current assets		**134,336**	117,612
Total assets less current liabilities		**297,823**	280,676

Consolidated Balance Sheet (continued)

as at 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current liabilities			
Interest-bearing bank and other borrowings	26	**690**	6,778
Deferred tax liabilities	29	**5,432**	3,896
		6,122	10,674
Net assets		**291,701**	270,002
EQUITY			
Equity attributable to Company's equity holders			
Share capital	30	**52,500**	37,500
Reserves	32(a)	**239,201**	232,502
Total equity		**291,701**	270,002

But Tin Fu
Director

Leung Cheong
Director

Balance Sheet

as at 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**80**	100
Interests in subsidiaries	19	**115,668**	115,668
		115,748	115,768
Current assets			
Due from subsidiaries	19	**140,512**	137,077
Prepayments and other receivables		**374**	219
Taxes recoverable		**71**	33
Cash and cash equivalents	24	**11,693**	676
		152,650	138,005
Current liabilities			
Due to a subsidiary	19	**1,109**	3,979
Other payables and accruals		**1,391**	1,138
		2,500	5,117
Net current assets		**150,150**	132,888
Net assets		**265,898**	248,656
EQUITY			
Share capital	30	**52,500**	37,500
Reserves	32(b)	**213,398**	211,156
Total equity		**265,898**	248,656

But Tin Fu
Director

Leung Cheong
Director

Consolidated Statement of Changes in Equity

for the year ended 31 March 2007

	Share capital	Share premium*	Contributed surplus*	Asset revaluation reserve*	Exchange reserve*	Reserve and enterprise expansion funds*	Share based payment reserve*	Retained profits*	Proposed final dividend*	Total equity
	HK$'000	HK$'000	HK$'000 (note 32(a))	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 April 2005	37,500	85,650	4,800	5,831	119	1,969	–	163,105	9,375	308,349
Surplus on revaluation	–	–	–	1,575	–	–	–	–	–	1,575
Exchange realignment	–	–	–	–	1,994	–	–	–	–	1,994
Deferred tax relating to revaluation of leasehold land and buildings (note 29)	–	–	–	(353)	–	–	–	–	–	(353)
Total income and expenses for the year recognised directly in equity	–	–	–	1,222	1,994	–	–	–	–	3,216
Net loss for the year	–	–	–	–	–	–	–	(37,180)	–	(37,180)
Total recognised income and expenses for the year	–	–	–	1,222	1,994	–	–	(37,180)	–	(33,964)
Recognition of equity–settled share based payments	–	–	–	–	–	–	4,992	–	–	4,992
Final 2005 dividend paid	–	–	–	–	–	–	–	–	(9,375)	(9,375)
Balance at 31 March 2006	37,500	85,650	4,800	7,053	2,113	1,969	4,992	125,925	–	270,002

Consolidated Statement of Changes in Equity (continued)

for the year ended 31 March 2007

	Share capital	Share premium*	Contributed surplus*	Asset revaluation reserve*	Exchange reserve*	Reserve and enterprise expansion funds*	Share based payment reserve*	Retained profits*	Total equity
	HK$'000	HK$'000	HK$'000 (note 32(a))	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 April 2006	37,500	85,650	4,800	7,053	2,113	1,969	4,992	125,925	270,002
Surplus on revaluation	–	–	–	961	–	–	–	–	961
Exchange realignment	–	–	–	–	1,656	–	–	–	1,656
Deferred tax relating to revaluation of leasehold land and buildings (note 29)	–	–	–	(193)	–	–	–	–	(193)
Total income and expenses for the year recognised directly in equity	–	–	–	768	1,656	–	–	–	2,424
Net profit for the year	–	–	–	–	–	–	–	2,197	2,197
Total recognised income and expenses for the year	–	–	–	768	1,656	–	–	2,197	4,621
Issue of shares	15,000	3,000	–	–	–	–	–	–	18,000
Share issue expenses	–	(922)	–	–	–	–	–	–	(922)
Appropriations	–	–	–	–	–	28	–	(28)	–
Balance at 31 March 2007	**52,500**	**87,728**	**4,800**	**7,821**	**3,769**	**1,997**	**4,992**	**128,094**	**291,701**

* These reserve accounts comprise the consolidated reserves of HK$239,201,000 (2006: HK$232,502,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

for the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Profit/(Loss) before income tax		**828**	(38,184)
Adjustments for:			
Finance costs		**1,513**	1,975
Share of profits of jointly-controlled entity and associate		**(1,626)**	(972)
Interest income		**(1,627)**	(819)
Depreciation		**15,374**	15,162
Amortisation of technical know-how		**5,500**	5,500
Recognition of prepaid land lease payment		**160**	158
Loss on disposals of property, plant and equipment		**546**	2,477
Changes in fair value of an investment property		**(330)**	(80)
Changes in fair value of leasehold land and buildings		**–**	(12)
Provision for impairment of trade receivables		**7,041**	7,458
Write-down of inventories to net realisable value		**1,297**	3,838
Equity-settled share option expense		**–**	4,992
Operating profit before working capital changes		**28,676**	1,493
Increase in inventories		**(19,247)**	(13,720)
Decrease in work in progress		**–**	2,831
(Increase)/decrease in trade and bill receivables		**(23,487)**	49,957
Decrease/(increase) in prepayments, deposits and other receivables	33	**16,524**	(12,654)
Increase/(decrease) in trade and bill payables		**8,974**	(3,596)
Increase in other payables and accruals		**7,312**	3,926
Cash generated from operations		**18,752**	28,237
Interest paid		**(1,421)**	(1,836)
Interest element on finance lease rental payments		**(92)**	(139)
Dividend paid		**–**	(9,375)
Hong Kong profits tax paid		**(6)**	(146)
Overseas taxes refund/(paid)		**48**	(705)
Net cash generated from operating activities		**17,281**	16,036

	Note	**2007** **HK$'000**	2006 HK$'000
Cash flows from investing activities			
Interest received		**1,627**	819
Purchases of property, plant and equipment		**(13,410)**	(6,970)
Proceeds from disposals of property, plant and equipment		**399**	1,873
Proceeds from disposals of a subsidiary	33	**150**	2,250
Increase in pledged bank balances with original maturity of more than three months when acquired, pledged as security for trade finance facilities		**(2,110)**	–
Capital injection to jointly-controlled entity		**(2,500)**	–
Net cash used in investing activities		**(15,844)**	(2,028)
Cash flows from financing activities			
Proceeds from issue of shares		**18,000**	–
Share issue expenses		**(922)**	–
Proceeds from bank loans		**29,116**	28,262
Repayments of bank loans		**(37,029)**	(37,608)
Capital element of finance lease rental payments		**(1,748)**	(1,951)
Net cash generated from/(used in) financing activities		**7,417**	(11,297)
Net increase in cash and cash equivalents		**8,854**	2,711
Cash and cash equivalents at beginning of the year		**72,742**	70,594
Effect of foreign exchange rate changes, net		**(3,769)**	(563)
Cash and cash equivalents at end of the year		**77,827**	72,742
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**70,805**	68,707
Non-pledged time deposits with original maturity of less than three months when acquired		**7,022**	2,035
Cash and bank balances pledged as security for trade finance facilities		**–**	2,000
		77,827	72,742

1. General Information

Sun East Technology (Holdings) Limited (the "Company") is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is located at Unit H, 1st Floor, Phase 4, Kwun Tong Industrial Centre, 436-446 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 19 to the financial statements.

The financial statements on pages 26 to 94 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also included the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The financial statements for the year ended 31 March 2007 were approved for issue by the board of directors on 26 July 2007.

2. Adoption of New and Amended HKFRS

2.1 Adoption of new and amended HKFRSs effective on or after 1 April 2006

From 1 April 2006, the Company and its subsidiaries (collectively known as the "Group") have adopted all the new and amended HKFRSs which are first effective on 1 April 2006 and relevant to the Group. The adoption of these HKFRSs has resulted in changes in the Group's accounting policies on financial guarantee contracts.

2. Adoption of New and Amended HKFRS (continued)

2.1 Adoption of new and amended HKFRSs effective on or after 1 April 2006 (continued)

Amendments to HKAS 39 Financial Instruments : Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts

The amendments to HKAS 39 require an entity to account for certain financial guarantee contracts in accordance with that standard. To comply with the requirements of the amended HKAS 39, the Group has adopted a new accounting policy to recognise financial guarantee contracts. On initial recognition, these contracts are measured at fair value and they are subsequently stated at the higher of:

– the amount initially recognised less where appropriate, cumulative amortisation recognised in accordance with the Group's revenue recognition policies; and

– the amount of the obligation under the contract, as determined in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets" ("HKAS 37").

Details of this new accounting policy are set out in note 3.20.

Prior to this new accounting policy, the Group disclosed the financial guarantees issued as contingent liabilities in accordance with HKFRS 4 "Insurance Contracts" and HKAS 37. Provisions for the Group's liabilities under the financial guarantee contracts were made when it was more likely than not that the guaranteed party would default and the Group would incur outflow of resources embodying economic benefits.

This new accounting policy has been applied retrospectively to the extent that the financial guarantee contracts were in existence at 1 April 2005. The adoption of this new accounting policy had no material impact on the results and financial positions for the current or prior accounting years.

Other than the above, the adoption of these new and amended HKFRSs did not result in significant changes in the Group's and Company's accounting policies but gave rise to additional disclosures.

2. Adoption of New and Amended HKFRS (continued)

2.2 The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The adoption of such HKFRSs will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures[4]
HKFRS 7	Financial Instruments – Disclosures[4]
HKFRS 8	Operating segment[7]
HK(IFRIC) Interpretation 8	Scope of HKFRS 2[1]
HK(IFRIC) Interpretation 9	Reassessment of Embedded Derivatives[2]
HK(IFRIC) Interpretation 10	Interim Financial Reporting and Impairment[3]
HK(IFRIC) Interpretation 11	Group and Treasury Share Transactions[5]
HK(IFRIC) Interpretation 12	Service Concession Arrangements[6]

Notes:

1 Effective for annual periods beginning on or after 1 May 2006
2 Effective for annual periods beginning on or after 1 June 2006
3 Effective for annual periods beginning on or after 1 November 2006
4 Effective for annual periods beginning on or after 1 January 2007
5 Effective for annual periods beginning on or after 1 March 2007
6 Effective for annual periods beginning on or after 1 January 2008
7 Effective for annual periods beginning on or after 1 January 2009

3. Summary of Significant Accounting Policies

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for investment properties and land and buildings which are stated at their fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

3.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

3. Summary of Significant Accounting Policies (continued)

3.3 Subsidiaries (continued)

Business combinations are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture.

In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is adjusted for the post-acquisition changes in the Group's share of the associate's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

3. Summary of Significant Accounting Policies (continued)

3.4 Associates (continued)

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.10) of the associate and its carrying amount.

3.5 Jointly-controlled entity

A jointly-controlled entity is a jointly venture under a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

3. Summary of Significant Accounting Policies (continued)

3.5 Jointly-controlled entity (continued)

In consolidated financial statements, investment in jointly-controlled entity is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the jointly-controlled entity is adjusted for the post-acquisition changes in the Group's share of the jointly-controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the jointly-controlled entity for the year, including any impairment loss on goodwill relating to the investment in jointly-controlled entity recognised for the year.

When the Group's share of losses in an jointly-controlled entity equals or exceeds its interest in the jointly-controlled entity, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly-controlled entity. For this purpose, the Group's interest in the jointly-controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly-controlled entity.

Unrealised gains on transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's interest in the jointly-controlled entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the jointly-controlled entity uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the jointly-controlled entity 's accounting policies to those of the Group when the jointly-controlled entity's financial statements are used by the Group in applying the equity method.

At each balance sheet date, the Group determines whether there is any objective evidence that the investment in jointly-controlled entity is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.10) of the jointly-controlled entity and its carrying amount.

3. Summary of Significant Accounting Policies (continued)

3.6 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into the HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange reserve in equity.

3.7 Intangible assets – technical know how

Intangible assets are technical know how and are recognised initially at cost. After initial recognition, intangible assets are carried at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years, commencing from the date when the new products are available for use.

Intangible assets are tested for impairment as described below in note 3.10.

3. Summary of Significant Accounting Policies (continued)

3.8 Property, plant and equipment

Leasehold land and buildings (where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease) are stated at revalued amounts, being fair value at the date of revaluation less subsequent accumulated depreciation and any subsequent impairment losses. Fair value is determined through appraisals by external professional valuers on a regular basis to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Any surplus arising on revaluation of land and buildings is credited to the asset revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in note 3.10. To the extent that any decrease has previously been recognised in income statement, a revaluation increase is credited to income statement with the remaining part of the increase dealt with in the asset revaluation reserve. A decrease in net carrying amount of land and buildings arising on revaluations or impairment testing is charged against any revaluation surplus in the asset revaluation reserve relating to the same asset and the remaining decrease is recognised in income statement.

Depreciation is provided to write off the cost or revalued amounts less their residual values over their estimated useful lives. Except for leasehold land and buildings which are depreciated on the straight-line basis, all items of property, plant and equipment are depreciated on the reducing balance basis. The principal annual rates used for this purpose are as follows :

Leasehold land and buildings	The shorter of the lease terms and 22 years
Machinery and equipment	9% to 25%
Furniture, fixtures and leasehold improvements	18% to 25%
Motor vehicles	25%

The assets' residual values and estimated useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3. Summary of Significant Accounting Policies (continued)

3.8 Property, plant and equipment (continued)

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement. Any revaluation surplus remaining in equity is transferred to retained profits on the disposal of land and buildings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the period in which they are incurred.

3.9 Investment properties

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Gains or losses arising from changes in the fair value of an investment property is included in the income statement for the period in which they arise.

3. Summary of Significant Accounting Policies (continued)

3.10 Impairment of assets

Intangible assets, property, plant and equipment, interests in subsidiaries, associates and jointly controlled entities are subject to impairment testing.

Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy (refer to note 3.8 for details). The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. Summary of Significant Accounting Policies (continued)

3.11 Related parties

A party is considered to be related to the Group if :

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;

(b) the party is an associate or a jointly-controlled entity of the Company/Group;

(c) the party is a member of the key management personnel of the Company or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

3.12 Leases

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 3.9); and

3. Summary of Significant Accounting Policies (continued)

3.12 Leases (continued)

(i) Classification of assets leased to the Group (continued)

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease (see note 3.8). For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

3. Summary of Significant Accounting Policies (continued)

3.12 Leases (continued)

(iii) Operating lease charges as the lessee

Where the Group has the use of asses held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

3.13 Financial assets

The Group's financial assets are mainly loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument and are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in income statement for the period in which the impairment occurs.

3. Summary of Significant Accounting Policies (continued)

3.13 Financial assets (continued)

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statement for the period in which the reversal occurs.

3.14 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis, where work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

3.15 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3.16 Income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

3. Summary of Significant Accounting Policies (continued)

3.16 Income taxes (continued)

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.17 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

3. Summary of Significant Accounting Policies (continued)

3.17 Revenue recognition (continued)

(b) interest income, on a time-proportion basis using the effective interest method;

(c) rental income, on a time proportion basis over the lease terms; and

(d) service income, when the services are rendered.

3.18 Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

3. Summary of Significant Accounting Policies (continued)

3.18 Employee benefits (continued)

Share-based payment transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

3. Summary of Significant Accounting Policies (continued)

3.18 Employee benefits (continued)

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of the payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

3.19 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

3. Summary of Significant Accounting Policies (continued)

3.19 Provisions and contingent liabilities (continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisaton, if appropriate.

3.20 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

3. Summary of Significant Accounting Policies (continued)

3.20 Financial guarantees issued (continued)

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3.21 Financial liabilities

Financial liabilities include bank loans, finance leasing liabilities, trade payables and other payables and accruals.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in financial costs in the income statement. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 3.12)

Borrowings are recognised initially at fair value, net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Trade and bill payables and other payables and accruals are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

3. Summary of Significant Accounting Policies (continued)

3.22 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium reserve (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

4. Critical Accounting Estimates and Judgements

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below:

(i) *Impairment of property, plant and equipment and intangible assets*

Property, plant and equipment (note 15) and intangible assets (note 18) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of the property, plant and equipment and intangible assets have been determined based on value-in-use calculations. These calculations and valuations require the use of judgements and estimates. The carrying amounts of property, plant and equipment and intangible assets of the Group as at 31 March 2007 were HK$143,064,000 (2006: HK$139,895,000) and HK$467,000 (2006: HK$5,967,000), respectively.

(ii) *Share-based payment*

The fair value of options granted are estimated by independent professional valuer based on the various assumptions of volatility, life of options, dividend yield and annual risk-free rate, excluding the impact of non-market vesting conditions, which generally represent the best estimate of the fair value of the option at the date of granting the options.

4. Critical Accounting Estimates and Judgements (continued)

Estimation uncertainty (continued)

(iii) *Impairment of receivables*

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers/borrowers and current market conditions. Management reassess the impairment of receivables at the balance sheet date.

(iv) *Income taxes*

The Group is subject to income taxes in Hong Kong and Mainland China. Significant judgement is required in determining the amount of the provision for income taxes and the timing of payment of related taxes. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which the tax outcome is finalised.

(v) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at the balance sheet date.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Estimated useful lives of property, plant and equipment and other intangible assets

In assessing the estimated useful lives of the property, plant and equipment and other intangible assets, the Group takes into account factors like the expected usage of the assets by the Group based on past experience, the expected physical wear and tear, and technical obsolescence arising from changes or improvements in production or from a change in the market demand for the products. The estimation of the useful lives is a matter of judgement based on the experience of the Group.

5. Segment Information

In accordance with the Group's internal financial reporting the Group has determined that business segment be presented as the primary reporting format.

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, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

5. Segment Information (continued)

(a) Business segments

The following tables present revenue, profit/ (loss) and certain assets, liabilities and expenditure information for the Group's business segments for the year ended 31 March 2007 and 2006.

	Production lines and production equipment		Brand name production equipment		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**316,925**	293,879	**183,501**	164,417	**500,426**	458,296
Other revenue — external	**2,261**	2,577	**–**	–	**2,261**	2,577
Total	**319,186**	296,456	**183,501**	164,417	**502,687**	460,873
Segment results	**(26,426)**	(57,586)	**25,431**	19,586	**(995)**	(38,000)
Interest and unallocated income					**1,710**	819
Finance costs					**(1,513)**	(1,975)
Share of profits of:						
Jointly-controlled entity	**1,606**	952	**–**	–	**1,606**	952
Associate	**20**	20	**–**	–	**20**	20
Profit/(loss) before income tax					**828**	(38,184)
Income tax credit					**1,369**	1,004
Profit/(loss) for the year					**2,197**	(37,180)

5. Segment Information (continued)

(a) Business segments (continued)

	Production lines and production equipment		Brand name production equipment		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**379,337**	353,097	**83,815**	86,976	**463,152**	440,073
Interests in jointly-controlled entity	**9,676**	5,570	**–**	–	**9,676**	5,570
Interests in associate	**1,030**	1,010	**–**	–	**1,030**	1,010
Unallocated assets					**3,350**	3,500
Total assets					**477,208**	450,153
Segment liabilities	**87,819**	75,259	**48,157**	50,623	**135,976**	125,882
Unallocated liabilities					**49,531**	54,269
Total liabilities					**185,507**	180,151
Other segment information:						
Depreciation and amortisation	**21,034**	20,820	**–**	–	**21,034**	20,820
Capital expenditure	**13,410**	6,970	**–**	–	**13,410**	6,970
Capital injection to jointly-controlled entity	**2,500**	–	**–**	–	**2,500**	–
Provision for impairment of trade receivables	**7,041**	7,458	**–**	–	**7,041**	7,458
Write down of inventories to net realisable value	**1,297**	3,838	**–**	–	**1,297**	3,838
Loss on disposals of items of property, plant and equipment	**546**	2,477	**–**	–	**546**	2,477

5. Segment Information (continued)

(b) Geographical segments

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

Segment revenue:

	2007 HK$'000	2006 HK$'000
Hong Kong	**74,470**	78,190
Mainland China	**378,762**	341,409
Europe (principally Spain and Germany)	**20,742**	12,195
Others (principally Japan and Singapore)	**26,452**	26,502
	500,426	458,296

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and capital injection to jointly-controlled entity, analysed by the geographical area in which the assets are located.

	Segment assets		Capital expenditures	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Hong Kong	**232,397**	193,631	**10,923**	2,868
Mainland China	**241,118**	248,921	**2,487**	4,102
Europe (principally Spain and Germany)	**11**	3,092	**–**	–
Others (principally Japan and Singapore)	**3,682**	4,509	**2,500**	–
	477,208	450,153	**15,910**	6,970

6. Revenue and Other Income

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of revenue and other income is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Revenue – sale of goods	**500,426**	458,296
Other income:		
Bank interest income	**1,627**	819
Gross rental income from investment properties	**83**	83
Service income	**872**	843
Others	**1,389**	1,651
	3,971	3,396

7. Profit/(Loss) Before Income Tax

	Group	
	2007	2006
	HK$'000	HK$'000
Profit/(loss) before income tax is arrived at after charging/(crediting):		
Cost of inventories sold	**346,522**	334,133
– including write-down of inventories to net realisable value	**1,297**	3,838
Depreciation	**15,374**	15,162
Minimum lease payments under operating leases in respect of leasehold land and buildings	**1,565**	1,576
Auditors' remuneration	**900**	1,500
Staff costs (including directors' remuneration and retirement scheme contribution)	**57,298**	56,931
Amortisation of technical know-how *	**5,500**	5,500
Amortisation of prepaid land lease payments	**160**	158
Provision for impairment of trade receivables	**7,041**	7,458
Loss on disposals of property, plant and equipment	**546**	2,477
Foreign exchange loss, net	**144**	76
Changes in fair value of an investment property	**(330)**	(80)

* Amortisation of technical know-how of approximately HK$5,500,000 (2006 : approximately HK$5,500,000) has been included in cost of sales on the face of the consolidated income statement.

8. Finance Costs

	Group	
	2007	2006
	HK$'000	HK$'000
Interest on bank loans	**1,421**	1,836
Interest on finance leases	**92**	139
	1,513	1,975

9. Directors' Remuneration

Remuneration of the directors disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Fees:		
Independent non-executive directors	**360**	418
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	**3,658**	3,846
Employee share option benefits	**–**	4,992
Pension scheme contributions	**48**	48
	4,066	9,304

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Mr. See Tak Wah	**120**	120
Prof. Xu Yang Sheng	**120**	104
Mr. Yau Wing Keung, Frankie	**120**	104
Mr. Au Son Yiu (resigned on 20 May 2005)	**–**	45
Mr. Goh Gen Cheung (resigned on 20 May 2005)	**–**	45
	360	418

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

9. Directors' Remuneration (continued)

(b) Executive directors

	Group				
	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2007					
Mr. But Tin Fu	**–**	**910**	**–**	**12**	**922**
Mr. But Tin Hing	**–**	**1,064**	**–**	**12**	**1,076**
Mr. Leung Cheong	**–**	**753**	**–**	**12**	**765**
Mr. Leung Kuen, Ivan	**–**	**931**	**–**	**12**	**943**
	–	**3,658**	**–**	**48**	**3,706**
2006					
Mr. But Tin Fu	–	931	1,248	12	2,191
Mr. But Tin Hing	–	1,065	1,248	12	2,325
Mr. Leung Cheong	–	931	1,248	12	2,191
Mr. Leung Kuen, Ivan	–	919	1,248	12	2,179
	–	3,846	4,992	48	8,886

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. Five Highest Paid Employees

The five highest paid employees during the year included four (2006: four) directors, details of whose remuneration are set out in note 9 above. The remuneration of the remaining one (2006:one) highest paid employee for the year fell within the band of HK$1,000,001 – HK$1,500,000 (2006: HK$ NIL – HK$1,000,000), details of which are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Salary, allowances and benefits in kind	**1,040**	650
Pension scheme contributions	**–**	48
	1,040	698

11. Income Tax Credit

Hong Kong profits tax has been provided at the rate of 17.5% (2006:17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in Mainland China have been calculated at the prevailing rates of tax based on existing legislation, interpretations and practices.

	Group	
	2007	2006
	HK$'000	HK$'000
Current – Hong Kong		
Tax for the year	**19**	3,349
Overprovision in prior years	**(266)**	–
Deferred tax (note 29)	**1,343**	681
Income tax expense	**1,096**	4,030
Current – Mainland China		
Tax for the year	**46**	–
Overprovision in prior years	**(2,511)**	(5,034)
Income tax credit	**(2,465)**	(5,034)
Total income tax credit	**(1,369)**	(1,004)

A reconciliation of the income tax credit applicable to profit before income tax using the statutory rates for the tax jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the income tax credit at the effective tax rates are as follows:

11. Income Tax Credit (continued)

Group – 2007

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
(Loss)/Profit before income tax	**(219)**	**1,047**	**828**
Tax at the statutory tax rate	**(38)**	**346**	**308**
Different tax rate for specific provinces or local authority	**–**	**(462)**	**(462)**
Adjustments in respect of current tax of prior years	**(266)**	**(2,511)**	**(2,777)**
Income not subject to tax	**(316)**	**(2,053)**	**(2,369)**
Expenses not deductible for tax	**53**	**2,320**	**2,373**
Tax losses utilised from previous years	**(663)**	**–**	**(663)**
Tax losses not recognised	**2,316**	**665**	**2,981**
Others	**10**	**(770)**	**(760)**
Tax charge/(credit) at the Group's effective rate	**1,096**	**(2,465)**	**(1,369)**

Group – 2006

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Loss before income tax	(8,035)	(30,149)	(38,184)
Tax at the statutory tax rate	(1,406)	(9,949)	(11,355)
Different tax rate for specific provinces or local authority	–	5,661	5,661
Adjustments in respect of current tax of prior years	–	(5,034)	(5,034)
Income not subject to tax	(1,305)	–	(1,305)
Expenses not deductible for tax	3,180	4,442	7,622
Tax losses not recognised	3,107	175	3,282
Others	454	(329)	125
Tax charge/(credit) at the Group's effective rate	4,030	(5,034)	(1,004)

12. Profit Attributable to Equity Holders of the Company

The consolidated profit attributable to equity holders of the Company for the year ended 31 March 2007 include a profit of HK$ 164,000 (2006: HK$18,000) which has been dealt with in the financial statements of the Company (note 32b).

13. Dividends

No dividend has been paid or declared by the Company during the years presented in these financial statements.

14. Earnings/(Loss) Per Share

The calculation of basic earnings/ (loss) per share amount is based on the net profit for the year of approximately HK$2,197,000 (2006: net loss of approximately HK$37,180,000) attributable to equity holders of the Company, and the weighted average number of 449,754,373 (2006: 425,775,000 as restated) ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

There has been no dilutive effect on the basic earnings per share for the year ended 31 March 2007 and 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.

15. Property, Plant and Equipment

Group

	Leasehold land and buildings HK$'000	Machinery and equipment HK$'000	Furniture, fixtures and leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31 March 2007					
At 1 April 2006:					
Cost or valuation	93,740	72,596	23,649	8,796	198,781
Accumulated depreciation	–	(41,696)	(12,499)	(4,691)	(58,886)
Net book amount	93,740	30,900	11,150	4,105	139,895
Year ended 31 March 2007					
Opening net book amount	93,740	30,900	11,150	4,105	139,895
Additions	–	11,073	1,993	344	13,410
Disposals	–	(91)	(175)	(679)	(945)
Surplus on revaluation	961	–	–	–	961
Depreciation	(5,248)	(6,980)	(2,643)	(503)	(15,374)
Exchange realignment	3,987	552	440	138	5,117
Closing net book amount	93,440	35,454	10,765	3,405	143,064
At 31 March 2007:					
Cost or valuation	93,440	84,334	26,210	8,370	212,354
Accumulated depreciation	–	(48,880)	(15,445)	(4,965)	(69,290)
Net book amount	93,440	35,454	10,765	3,405	143,064
Analysis of cost or valuation:					
At cost	–	84,334	26,210	8,370	118,914
At 2007 valuation	93,440	–	–	–	93,440
	93,440	84,334	26,210	8,370	212,354

15. Property, Plant and Equipment (continued)

Group

	Leasehold land and buildings HK$'000	Machinery and equipment HK$'000	Furniture, fixtures and leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31 March 2006					
At 1 April 2005:					
Cost or valuation	95,027	73,302	21,368	8,998	198,695
Accumulated depreciation	–	(36,942)	(10,052)	(4,177)	(51,171)
Net book amount	95,027	36,360	11,316	4,821	147,524
Year ended 31 March 2006					
Opening net book amount	95,027	36,360	11,316	4,821	147,524
Additions	–	2,209	4,689	72	6,970
Disposals	–	(2,542)	(1,550)	(258)	(4,350)
Surplus on revaluation	1,587	–	–	–	1,587
Depreciation	(5,374)	(5,516)	(3,634)	(638)	(15,162)
Exchange realignment	2,500	389	329	108	3,326
Closing net book amount	93,740	30,900	11,150	4,105	139,895
At 31 March 2006:					
Cost or valuation	93,740	72,596	23,649	8,796	198,781
Accumulated depreciation	–	(41,696)	(12,499)	(4,691)	(58,886)
Net book amount	93,740	30,900	11,150	4,105	139,895
Analysis of cost or valuation:					
At cost	–	72,596	23,649	8,796	105,041
At 2006 valuation	93,740	–	–	–	93,740
	93,740	72,596	23,649	8,796	198,781

15. Property, Plant and Equipment (continued)

Company

	Machinery and equipment HK$'000
At 1 April 2005	
Cost	140
Accumulated depreciation	(28)
Net book amount	112
Year ended 31 March 2006	
Opening net book amount	112
Additions	20
Depreciation	(32)
Closing net book amount	100
At 31 March 2006	
Cost	160
Accumulated depreciation	(60)
Net book amount	100
Year ended 31 March 2007	
Opening net book amount	100
Depreciation	(20)
Closing net book amount	80
At 31 March 2007	
Cost	160
Accumulated depreciation	(80)
Net book amount	80

15. Property, Plant and Equipment (continued)

The Group's leasehold land and buildings situated in Hong Kong and Mainland China were revalued individually at the balance sheet date by Castores Magi Surveyors Limited ("Castores"), independent professionally qualified valuers, at opening market values of HK$4,840,000 (2006: HK$4,120,000) and HK$88,600,000 (2006: HK$89,620,000), respectively. The valuation has been made on the assumption that the Group sells the properties on the open market in their existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the properties. Revaluation surpluses of HK$961,000 (2006: HK$1,575,000), resulting from the above valuations, have been credited to the relevant asset revaluation reserve.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$84,927,000 (2006: HK$88,794,000).

The net book value of the Group's property, plant and equipment held under finance leases includes certain machinery and equipment at 31 March 2007 and these are analysed as follows:

	2007	2006
	HK$'000	HK$'000
Motor vehicles	**–**	230
Machinery and equipment	**1,662**	3,839

The Group's leasehold land and buildings are held under medium term leases and are further analysed as follows:

	2007	2006
	HK$'000	HK$'000
Hong Kong	**4,840**	4,120
Mainland China	**88,600**	89,620
	93,440	93,740

As 31 March 2007, certain of the Group's leasehold land and buildings with net book values of approximately HK$2,390,000 (2006:HK$1,960,000) were pledged to secure general banking facilities granted to the Group (note 26).

16. Investment Properties

	Group	
	2007	2006
	HK$'000	HK$'000
Carrying amount at beginning of the year	**2,020**	1,940
Net gain from fair value adjustments	**330**	80
Carrying amount at end of the year	**2,350**	2,020

The Group's investment property is situated in Hong Kong and leased to a third party. The Group's investment property is held under a medium term lease.

The Group's investment property was revalued as at 31 March 2007 by Castores, independent professionally qualified valuers, at HK$2,350,000 (2006: HK$2,020,000) on the open market, existing use basis. A surplus of HK$330,000 (2006: HK$80,000) so arising has been credited to the consolidated income statement.

At 31 March 2007, the Group's investment property with a value of HK$2,350,000 (2006: HK$2,020,000) was pledged to secure general banking facilities granted to the Group (note 26).

17. Prepaid Land Lease Payments

	Group	
	2007	2006
	HK$'000	HK$'000
Carrying amount at beginning of the year		
As previously reported	**6,912**	–
Effect of adopting HKAS17	**–**	6,873
Net carrying amount	**6,912**	6,873
Recognised during the year	**(160)**	(158)
Exchange realignment	**308**	197
Carrying amount at end of the year	**7,060**	6,912
Current portion included in prepayments, deposits and other receivables	**(160)**	(160)
Non-current portion	**6,900**	6,752

Prepaid land lease payments are held under medium term leases and the balance relates to the land situated in Mainland China.

18. Intangible Assets

	Group	
	2007	2006
	HK$'000	HK$'000
Cost	**27,498**	27,498
Accumulated amortisation	**(27,031)**	(21,531)
Net carrying amount	**467**	5,967

19. Interests in Subsidiaries

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**115,668**	115,668
Due from subsidiaries	**166,974**	163,539
Less: Provision for impairment	**(26,462)**	(26,462)
	140,512	137,077
Due to a subsidiary	**(1,109)**	(3,979)
	255,071	248,766

Amounts due from and to subsidiaries are unsecured, interest-free and repayable on demand. The carrying amounts of these amounts due from and to subsidiaries approximate to their fair values.

19. Interests in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
i-System Investment Company Limited	British Virgin Islands ("BVI")	US$2,000	100	–	Investment holding
Sun East Electronic Equipment Company Limited	Hong Kong	HK$5,000,000	–	100	Trading of machinery
Fureach Precision Limited	Hong Kong	HK$10,000	–	100	Trading of machinery
Suneast Electronics Development (Shenzhen) Co., Ltd#	Mainland China	HK$65,000,000	–	100	Manufacture and trading of machinery
Eastern Century Speed Inc.	BVI	US$1	–	100	Development of the electrical interconnection technique
Surfacetech Surface Treatment System Engineering Co., Ltd	Hong Kong	HK$10,000	–	100	Trading of machinery
Frontier Precision System Co., Ltd	Hong Kong	HK$10,000	–	100	Manufacture and trading of machinery

19. Interests in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Sun East Tech Development Limited	Hong Kong	HK$10,000	–	100	Trading of machinery
天力精 密系統(深圳)有限公司#	Mainland China	HK$5,000,000	–	100	Manufacture and trading of machinery
日東電子科技(深圳)有限公司#	Mainland China	HK$17,000,000*	–	100	Manufacture and trading of machinery
日東自動化設備(上海)有限公司#	Mainland China	US$2,750,000**	–	100	Trading of machinery

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

\# Registered as a wholly-owned foreign investment enterprises in Mainland China.

* On 31 January 2007, the registered capital of 日東電子科技(深圳)有限公司 was approved to be increased from HK$15,000,000 to HK$25,000,000. As at balance sheet date, HK$17,000,000 of the total registered capital had been contributed and the Group therefore had an outstanding investment commitment of HK$8,000,000 in this subsidiary.

** On 1 August 2006, the registered capital of 日東自動化設備(上海)有限公司 was approved to be increased from US$2,000,000 to US$3,250,000. As at balance sheet date, US$2,750,000 of the total registered capital had been contributed and the Group therefore had an outstanding investment commitment of US$500,000 in this subsidiary.

20. Interests in Jointly-controlled Entity

	Group 2007 HK$'000	Group 2006 HK$'000
Share of net assets	**9,676**	5,570

The Group's trade receivable balance due from the jointly-controlled entity is disclosed in note 23 to the financial statements.

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of Ownership interest (indirect)	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Rehm Suneast International Limited	Corporate	BVI/ Mainland China	50	50	50	Manufacture and trading of machinery

21. Interests in Associate

	Group 2007 HK$'000	2006 HK$'000
Share of net assets	**1,030**	1,010

The Group's trade receivable balance due with the associate is disclosed in note 23 to the financial statements.

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of Ownership (indirect)	Principal activities
Sun East Sanki Co., Ltd	Corporate	Hong Kong	50	Investment holding

22. Inventories

	Group 2007 HK$'000	2006 HK$'000
Raw materials	**38,405**	33,656
Work in progress	**21,465**	21,739
Finished goods	**53,038**	39,563
	112,908	94,958

23. Trade and Bill Receivables

An ageing analysis of the trade and bill receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within 90 days	**73,447**	49,017
91 to 120 days	**4,809**	7,931
121 to 180 days	**7,789**	8,340
181 to 360 days	**15,072**	19,970
Over 360 days	**11,042**	10,455
	112,159	95,713

Included in trade and bill receivables are the amounts denominated in the following currencies other than the functional currency of the entity to which they relate:

	2007	2006
	'000	'000
US dollars	**US$ 3,096**	US$ 1,722
Japanese Yen	**JPY 13,779**	JPY 261
Euro	**–**	EUR 212

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, each of which has a maximum credit limit, ranges from 30 to 180 days. 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.

23. Trade and Bill Receivables (continued)

Included in the Group's trade receivables are amounts due from the Group's jointly-controlled entity and associate of HK$ 3,507,000 (2006: HK$5,265,000) and HK$ 10,000 (2006: HK$10,000), respectively, which are unsecured, interest-free and repayable within 30 days.

24. Cash and Cash Equivalents and Pledged Cash and Bank Balances

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**72,915**	70,707	**11,693**	676
Time deposits	**7,022**	2,035	**–**	–
	79,937	72,742	**11,693**	676
Less: Pledged cash and bank balances for trade finance facilities	**(2,110)**	(2,000)	**–**	–
	77,827	70,742	**11,693**	676

At the balance sheet date, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$8,051,052 (2006: HK$9,994,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through the banks authorised to conduct foreign exchange businesses.

Cash at bank earns interest at floating rates based on the daily bank deposits rates ranging between 0.7% and 3.7% per annum. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

25. Trade and Bill Payables

An ageing analysis of the trade and bill payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within 90 days	**63,298**	56,104
91 to 120 days	**16,514**	8,410
Over 120 days	**13,690**	20,014
	93,502	84,528

Included in trade and bill payables are the amounts denominated in the following currencies other than the functional currency of the entity to which they relate:

	2007	2006
	'000	'000
US dollars	**US$ 5,100**	US$ 5,476
Japanese Yen	**JPY 824**	JPY 13,253
Euro	**EUR 13**	EUR 18

The trade and bill payables are non-interest bearing and are normally settled within 90 days.

26. Interest-bearing Bank and Other Borrowings

	Effective Interest rate (%)	Maturity	Group 2007 HK$'000	Group 2006 HK$'000
Current				
Finance lease liabilities (note 27)	3	2007	**433**	1,470
Secured bank loans	5.56	2007	**17,195**	19,731
			17,628	21,201
Non-current				
Finance lease liabilities (note 27)	3	2008 – 2009	**512**	203
Secured bank loans	HIBOR+2.5	4 May 2010*	**–**	6,164
Other secured bank loans	5.56	2008	**178**	411
			690	6,778
Total borrowings			**18,318**	27,979

* Wholly repaid on 4 August 2006

	Group 2007 HK$'000	Group 2006 HK$'000
Analysed of bank loans repayable:		
Within one year	**17,195**	19,731
In the second to fifth years, inclusive	**178**	6,575
	17,373	26,306

26. Interest-bearing Bank and Other Borrowings (continued)

Certain of the Group's bank loans as at the balance sheet date 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$2,350,000 (2006: HK$2,020,000) (note 16);

(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$2,390,000 (2006: HK$1,960,000) (note 15);

(iii) corporate guarantees provided by the Company (note 34).

The carrying amounts of the Group's borrowings approximate to their fair values.

The fair value of the borrowings is calculated by discounting the expected future cash flows at prevailing interest rates.

27. Finance Lease Liabilities

The Group leases certain of its motor vehicles, machinery and equipment for its production lines and equipment business. These leases are classified as finance leases and have remaining the lease terms ranging between one and five years.

At 31 March 2007, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		**Present value of finance lease liabilities**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**479**	1,531	**433**	1,470
In the second to fifth years, inclusive	**538**	207	**512**	203
Total minimum finance lease payments	**1,017**	1,738	**945**	1,673
Future finance charges	**72**	65		

28. Due to Directors

Included in the Group's other payables and accruals are amounts due to directors of approximately HK$6,575,000 (2006: HK$383,000) which are unsecured, interest-free and repayment on demand. The carrying amounts approximate to their fair values.

29. Deferred Tax

The movement in the Group's deferred tax liabilities during the year is as follows:

	Accelerated tax depreciation	Revaluation of properties	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2005	385	2,170	307	2,862
Charged to the income statement during the year (note 11)	681	–	–	681
Deferred tax relating to revaluation of property, plant and equipment	–	353	–	353
At 31 March 2006 and 1 April 2006	1,066	2,523	307	3,896
Charged to the income statement during the year (note 11)	1,343	–	–	1,343
Deferred tax relating to revaluation of property, plant and equipment	–	193	–	193
At 31 March 2007	2,409	2,716	307	5,432

The Group has tax losses arising from Hong Kong of HK$21,422,000 (2006: HK$16,700,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is uncertain whether sufficient future taxable profits will be generated against which the tax losses can be utilised.

At 31 March 2007, there was no significant unrecognised deferred tax liabilities (2006: Nil) that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associate or joint venture entity as the Group had no liabilities to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

30. Share Capital

	2007	2006
	HK$'000	HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
525,000,000 (2005: 375,000,000) ordinary shares of HK$0.10 each	**52,500**	37,500

A summary of the movements in the Company's issued share capital is as follows:

	Number of shares in issue	**Issued share capital**	**Share premium**	**Total**
	'000	HK$'000	HK$'000	HK$'000
At 1 April 2005, 31 March 2006 and 1 April 2006	375,000	37,500	85,650	123,150
Rights issue	150,000	15,000	3,000	18,000
	525,000	52,500	88,650	141,150
Share issue expenses	–	–	(922)	(922)
At 31 March 2007	525,000	52,500	87,728	140,228

A right issue of two right shares for every five existing shares held by equity holders on the equity holder register on 7 December 2006 was made, at an issue price HK$0.12 per rights share ("Rights Issue"), resulting in the issue of 150,000,000 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$18,000,000.

31. Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, employees of the Group and entities in which the Group has equity interests, suppliers of goods or services to the Group, customers of the Group and consultants, advisers, managers, officers or entities that provide technological support to the Group. The Scheme became effective on 30 August 2002 and, unless otherwise cancelled or amended, will remain in force for six years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting of the Company.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted to grantees (a) other than suppliers or customers shall commence on the date of grant and expire on the earlier of the last year of (i) a six year period from the date of such grant and (ii) the expiration of the scheme; (b) who are suppliers or customers of the Group, such period shall commence on the date of grant and expire on year thereafter.

31. Share Option Scheme (continued)

The exercise price of the share options is determined by the directors, but shall not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of the share options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of a share of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The particulars in relation to the share option scheme of the Company are disclosed as follows :

Directors	Date of grant	Adjusted Exercise Price after the Right Issue during the year* HK$	Exercisable period	Adjusted outstanding share options after the Rights Issue*	Granted during the year	Exercised/ Cancelled/ Lapsed during the year	Outstanding at 31 March 2007
Mr. But Tin Hing	31 August 2005	0.558	31 August 2005 to 29 August 2008	8,806,452	–	–	8,806,452
Mr. But Tin Fu	31 August 2005	0.558	31 August 2005 to 29 August 2008	8,806,452	–	–	8,806,452
Mr. Leung Cheong	31 August 2005	0.558	31 August 2005 to 29 August 2008	8,806,452	–	–	8,806,452
Mr. Leung Kuen, Ivan	31 August 2005	0.558	31 August 2005 to 29 August 2008	8,806,450	–	–	8,806,450
				35,225,806	–	–	35,225,806

31. Share Option Scheme (continued)

*Under the terms of the Share Option Scheme, adjustments to the exercise price or number of securities subject to options granted so far as unexercised are required upon the completion of the Rights Issue (note 30). The adjustments to the initial exercise price of shares exercisable under the outstanding share options of the Company and the adjustments to the number of outstanding options are as follows: –

Date of Grant of Share Options	Outstanding Share Options prior to the Right Issue	Exercise price per Share Options	Adjusted outstanding share options after the Right Issue	Adjusted exercise price after the Right Issue
		HK$		HK$
31 August 2005	31,200,000	0.6300	35,225,806	0.5580

No additional options were granted during 2007. The fair value of the share options granted during the 2006 was calculated using the Black-Scholes option pricing model. The inputs into the model are as follows:

Expected dividend yield (%)	3.92
Expected volatility (%)	55.1
Risk-free interest rate (%)	3.81
Expected life of option (year)	3.08
Stock price on date of grant (HK$)	0.55

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had 35,225,806 share options outstanding under the Scheme. All of these options were exercisable at the balance sheet date and the exercise price is HK$0.558 per option. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 35,225,806 additional ordinary shares of the Company and additional share capital of HK$3,522,581 and share premium of HK$16,133,419 (before issue expenses).

32. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and previous years are presented in the consolidated statement of changes in equity on pages 30 to 31 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor.

(b) Company

	Share premium	Contributed surplus	Share based payment reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2005	85,650	115,468	–	5,028	206,146
Equity-settled share option arrangement	–	–	4,992	–	4,992
Net profit for the year	–	–	–	18	18
At 31 March 2006 and 1 April 2006	85,650	115,468	4,992	5,046	211,156
Issue of shares	3,000	–	–	–	3,000
Share issue expenses	(922)	–	–	–	(922)
Net profit for the year	–	–	–	164	164
At 31 March 2007	87,728	115,468	4,992	5,210	213,398

The Company's contributed surplus represents the excess of the then combined net asset value of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of its contributed surplus in certain circumstances.

33. Notes to the Consolidated Cash Flow Statement

The outstanding amount of HK$3,500,000 as at 31 March 2006 arising from the disposal of a subsidiary in prior years, which was included in prepayments, deposits and other receivables is outstanding. During the year, an amount of HK$150,000 (2006: HK$2,250,000) was received.

34. Financial Guarantee Contracts - Company

The Company has executed guarantees amounting to approximately HK$130,088,000 (2006: HK$285,332,000) with respect to bank facilities granted to certain subsidiaries of the Company. Under the guarantees, the Company would be liable to pay the bank if the bank is unable to recover the loan. At the balance sheet date, no provision for the Company's obligation under the guarantee contract has been made as the directors considered that it was not probable that the repayment of the loan would be in default.

35. Commitments

At the balance sheet date, the Group had the following outstanding commitments:

Operating lease commitments

As lessee

The Group leases certain of its factory premises under operating lease arrangements. Leases for these assets are negotiated for the terms ranging between one and three years.

35. Commitments (continued)

Operating lease commitments (continued)

At 31 March 2007, the Group had total future minimum lease payments under non cancellable operating leases falling due as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**47**	868
In the second to fifth years, inclusive	**–**	47
	47	915

At the balance sheet date, the Company had no significant commitments (2006: Nil).

36. Related Party Transactions

(a) In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following transactions with related parties.

		Group	
		2007	2006
		HK$'000	HK$'000
Sales to jointly-controlled entity	(i)	**8,139**	5,614
Purchases from jointly-controlled entity	(ii)	**8,377**	–

(i) Sales to the jointly-controlled entity were made according to the published prices and conditions offered to the major customers of the Group.

(ii) Purchases from the jointly-controlled entity were made according to the published prices and conditions offered by the jointly-controlled entity to its major customers.

36. Related Party Transactions (continued)

(b) Outstanding balances with related parties

Details of the Group's trade balances with the jointly-controlled entity and associate as at the balance sheet date is disclosed in note 23 to the financial statements.

(c) Compensation of key management personnel of the Group

The remuneration of directors and other members of key management during the year were as follows:

	2007	2006
	HK$'000	HK$'000
Short term employee benefits	4,698	4,495
Post-employment benefits	48	48
Share-based payment	–	4,992
	4,746	9,535

Further details of directors' emoluments are included in note 9 to the financial statements.

37. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise bank loans, other interest-bearing loans, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Throughout the year under review, the Group did not undertake any trading in financial instruments.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

37. Financial Risk Management Objectives and Policies (continued)

Cash flow interest rate risk

The interest rates of the interest-bearing loans and borrowings of the Group are disclosed in note 26. The Group does not have significant exposure to the risk of changes in market interest rates as the Group does not have any long term receivables with a floating interest rate.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency.

The Group currently does not have a foreign currency hedging policy. However, management monitors the Group's foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds from the realisation of its assets if required.

38. Comparative Amounts

Certain comparative amounts have been restated to conform with the current year's presentation and accounting treatment.