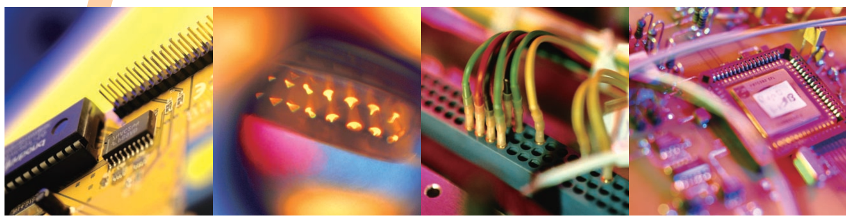
# Sun East Technology (Holdings) Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 365



# Annual Report 2008

# Contents



Expressed in Hong Kong dollars ("HK$")

# 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. LI Wanshou

### Members of the Audit Committee

Mr. SEE Tak Wah

Prof. XU Yang Sheng

Mr. LI Wanshou

## Company Secretary

Mr. CHAN Cheung

## 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 1208-18 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 embracing the new financial year, we are on the course to achieving the Group's vision to be "a world-class intelligent equipment manufacturing enterprise" underpinned by our strong and solid development.

During the year under review, the Group was in face of unfavourable operating environment, such as rising prices of raw materials, high labour costs and the continuous appreciation of Renminbi. Based on our business philosophy of "maximizing internal potential and exploring new markets, overcoming challenges and achieving steady growth", we have adopted a series of measures, including "optimizing product designs, improving manufacturing skills, arranging reasonable work schedules, enhancing efficiency, reducing energy consumption and overstocking of products, increasing market presence and speeding up the accounts receivable turnover", which effectively eliminated the adverse effect brought to the enterprise as a result of changes of the business environment.

Having implemented a management mechanism which places emphasis on "performance incentives" and "cost effectiveness" to every internal unit and all employees, the Group now operates a more reasonable reward and benefit scheme which has significantly enhanced employees' awareness on cost, and their attitude to work has also been greatly improved.

We have upgraded our products and adjusted our business structure. The Group's fundamental industry – the electronics equipment manufacturing business has become more comprehensive in terms of quality and technology after undergoing scientific and technological research and development. Automated logistic equipment and automobile automated manufacturing equipment has grown rapidly and become the Group's new stream of revenue growth.

We have expanded to new domestic and overseas markets in which initial results were satisfactory. Fees and other outgoings have been controlled effectively and hence risk-bearing ability has been strengthened. Our 4 major business sectors, namely automated electronics equipment business, automated logistic equipment business, automated automobile manufacturing equipment business and precision sheet metal manufacturing business have been under surging cost pressure, nevertheless, they have passed the transition smoothly with enhanced profitability. The Group has also recorded a healthy financial position.

# Chairman's Statement

The Group organized a series of activities named "Sun East's Qualify Promotion Tour in China – High-end SMT Report Meeting" (日東中國質量萬里行—高端SMT巡回報告會) in 17 cities. In the tour, over 800 clients participated and enabled the Group to have closer communication with them. The tour also allowed the Group to further understand the clients' needs, development of the industry as well as the market trend. The Group also implemented the "1-2-1" service strategy which has strengthened and expanded the close relationship with both new and existing clients. As such, the Sun East brand image has been remarkably enhanced.

The Group and the Faculty of Management of Shenzhen University had jointly organized an MBA training course to all its middle and senior management staff, for general quality upgrade of the management team.

At present, all departments of the Group are thoroughly conducting activities focusing on "cost control" and "system building" in this year of refined management to meet the Board's requirement on "the pursuit of proactive thinking and innovative development". We are pleased to see the significant progress the enterprise has made, the solid implementation of strategic adjustments, more scientific management and the strengthened foundation of the enterprise during these two years of development.



In a new era led by new trends, with new objectives and challenges, we must think out of the box to cope with these new changes in conducting our business. We are entering new industry and new market frontiers, adopting new technologies and switching to new management model. Sun East is at the start of a new milestone.

As a responsible, rejuvenated and dynamic enterprise, we at Sun East will deliver outstanding performance to maximize our shareholders' value and to contribute to the society.

I am confident in the future of Sun East and will spare no efforts in our development. I would like to express my sincere gratitude to all shareholders, staff and business associates for their care and support.

**But Tin Fu**
*Chairman*

Hong Kong
28 July 2008

# Management Discussion and Analysis

## Financial Results

Summary of the financial results of the Group for the year ended 31 March 2008 are as follows:

– Turnover was approximately HK$434 million (2007: HK$500 million), represented a decrease of approximately 13.2%.

– Loss before income tax was approximately HK$1.0 million (2007: Profit before income tax of HK$0.8 million).

– Profit for the year was approximately HK$0.5 million (2007: HK$2.2 million).

– Basic earnings per share was approximately HK0.10 cent (2007: HK0.49 cent).

## Business Review

The Group enjoys a leading position in China as a manufacturing enterprise of intelligent electronic equipment and a solution provider for industrial automatic systems. As at 31 March 2008, the Group has completed its overall strategic deployments and restructuring in response to the increase in raw materials prices in China and abroad, changes of market environment during the slowdown of overall growth in the electronics industry and industry development. 日東電子科技(深圳)有限公司, a subsidiary of the Group principally engaged in the manufacturing and value-added services such as sales, trade, etc. of SMT assembly equipment and semiconductor packaging equipment, will continue its efforts in the promotion of the Sun East brand. While our subsidiary Suneast Electronics Development (Shenzhen) Co., Ltd will primarily focus on the development and manufacture of automatic equipment for automobile manufacturing, logistics equipment and precision processing, and actively pursue research and development of high-end products and accumulate technological capability to gradually establish a professional equipment research centre as the foundation for future growth of the Group. Another subsidiary, Fureach Precision Ltd., will leverage on its strength in processing such as sheet metal, spraying operation and etc. to become an enterprise with mass production. Through the various measures for improvement, the Group has strengthened its competitiveness and recorded significant progress in its primary business development and achieved better operating results after a year's efforts.

# Management Discussion and Analysis

## 1. Establishing active sales policy, improving after-sale service and combining print and network media to promote new products

To increase the market share of our products, the Group has developed active sales policy, strengthened technical training and enhanced the quality of sales and after-sale service staff throughout China. Sales staff were re-grouped according to the products they are responsible for in order to set up professional advisory sales teams and start building a sales system based on network platform. The Group organized a series of activities under the name of "2007年日東中國質量萬里行－高端SMT巡迴報告會" in 17 cities with over 800 clients, maintaining good and interactive relationship with them and understanding their needs and the latest market trend and industry development for enhancing the Sun East brand. The implementation of the "1-2-1" service strategy means to respond to the clients' needs in one hour, arrive on-site in two hours and solve the problem in one day. The establishment of client error files and equipment error files and adoption of the speedy handing system in-house not only strengthened the good working relation with the old clients, but also attracted many clients with profound confidence towards Sun East. Currently, the PRC market is the primary market of the Group which provides the foundation for active development of international markets to extend its market share in overseas regional markets.

## 2. Enhancement of the initiative of research and development activities to create more advanced products by effective market drives and years of technological research and development

### 1. Electronics Assembly Equipment

To meet the demand for micro soldering equipment, the Group has launched new high speed and high precision printing equipment in 2007 and successfully introduced the intelligent embedding movement control system and 2D graphic processing system to enhance the speed, preciseness and reliability, which met the clients' demand for high productivity and quality and reached the target of securing its position in the middle-and-high-end market. During the year, the Group has launched another new reflow equipment and successfully introduced the online real-time temperature control system for real-time monitoring of the temperature of the clients' soldering products. Its close loop control function can provide the best soldering effect and enhance the soldering quality and efficiency of the products, realize high added-value for the clients and increase the core competitiveness of the Group's products.

2. **Semiconductor Packaging Equipment**

In 2007, there was new application in the wire bonding packaging market, which mainly reflected in the extensive application of LED in automobile electronics, outdoor advertisements, lightings, etc. in the past two years. Therefore, the market demand was more robust. Large LED manufacturers in China are mainly foreign enterprises, including Hong Kong funded and Taiwan funded enterprises. Domestic enterprises, particularly the non-state-owned enterprises, mostly use manual wire bonding machines but are gradually increasing their demand for automatic machines because of the quality and productivity requirements. In 2007, the Group actively expanded its wire bonding machine business which mainly focused on LED manufacturers and has made certain breakthroughs. Business contracts have been entered into with important clients such as 奧倫德，弘亞光，蘭科 etc. and established good demonstration lines. Manual COG benefited from industry development with continuous increase in sales orders and secured over 50% market shares in manual equipments. As a marketing strategy, we have also cooperated with Korean manufacturers to manufacture semi-automatic COG and were conducting research and development in full automatic models for launching in the market to make up a complete series.

3. **Automated Equipment Mainly for Automobile Manufacturing Industry**

To provide complete ancillary services, in addition to the supply of electronics assembly equipment, the Group adjusted the business of its subsidiary Suneast Electronics Development (Shenzhen) Co., Ltd, implemented active economic policies and established the automobile equipment sales department. In the area of automated equipment for automobile manufacturing industry, the Group achieved breakthroughs in three key technical areas, i.e. initial assembly line for engines, parts and components assembly line for assembly factory and assembly line for tyres, therefore increased the profits of automated equipment business.

4. **Automatic warehouse and logistics equipments**

The Group's products of automated warehouses, system integration and convey system sieve products have increased their technological contents and further improved functions through the control of critical technical check-points, and the implementation of standardization and regulation. In 2007, the Group has chosen major industries for making breakthroughs and developed other industries based on its own situation and market features. We continued to develop traditional industries such as tobacco, medicines, pharmaceuticals, machinery production, etc and actively explored potential markets such as 3PL, electronics industry, etc. We adopted an "embedding" sales method which combined logistic advisory planning and sales and provided integrated solutions to our clients. We have secured for the first time a large order from a medicine logistics enterprise which is considered more demanding.

3. **For sheet metal fabrication, the Group consolidated the Japanese and European markets, strengthened and optimized the market in PRC as well as emphasized the business in the North American market**

Our business concentrated on operations such as office automation, financial and communication, transformed from sole sheet metal processing model to processing and assembly model, and gradually penetrated into the sheet metal market of automobile industry with great business opportunities and market potential. The significant increase in the construction of metro/light rail provided great development opportunities for the products produced by the Group.

4. **Implementation of in-depth budget management to lower costs and combine budget control and target management effectively. System improvements particularly the supervision system was carried out to prevent risks**

While implementing budget management system, the Group assigned various business targets to each department and related staff and combined target management and performance management to ensure the cost of the Group was controlled effectively. Payments planning system was implemented in our subsidiaries to strengthen our unified management and control of capital, increase our overall capital operating efficiency and effectively prevent and lower capital operating risks. Internal audit system and internal control process were established and improved as we regularly conduct internal audit, risk assessment and business process audit towards our subsidiaries for better efficiency and effectiveness.

5. **For raising the implementation and operation capabilities, the Group streamlined its structure and attracted talents to join the Group while emphasized on the training of management personnel to ensure the talent pool required for development**

While actively dealing with market changes, the Group streamlined its headcount from 2,000 in 2005 to the current 1,400. The Group eliminates its low-end staff and emphasizes the continuous perfection of strategic human resources, and promotes the growth and maturation of staff through the establishment of promotion system for the talent pool, performance appraisal system, personnel training and development system and remuneration allocation and incentive system. The Group further articulated the job requirements and responsibilities on the promotion of the talent pool for different classes of management, and prepared the "Promotion and Management Method of Each Class of Talent Pool for Sun East Group". For matching up the strategic setting and demand for restructuring of the Group and enhancing the level of senior and middle management, in April 2007, the Group and the Faculty of Management of the University of Shenzhen jointly organized the one-year course of "MBA for senior and middle management of Sun East Group" in the industrial park of the Group to introduce MBA course system. The Group also emphasized the establishment of the internal trainer team and included the trainer's qualification in the entry qualification management, established the training programs for the key technical staff, as well as increased the business level and working ability for the staff through commencing targeted and effective management and job training.

6. **Enhancement of information management platform and speeding up response**

The Group primarily strengthens various basic management, actively implements business management and the information establishment of OA. We also improve the structure of organization, promote process reform and further strengthen the management functions and capabilities of functional departments for more speedy response.

## Prospects

Continuous increase in raw materials prices in 2008, coupled with factors such as the appreciation of Renminbi and increase in employees' remunerations and benefits, have brought challenges to the Group as operating costs continue to rise. We strive to improve our results in order to maintain and increase the core competitiveness and market share of the Group. Under our clear and determined business objectives, we have taken full advantage of the State's policies for supporting equipment manufacturers and further boosted our internal cost advantage and competitiveness. For the research and development work, the Group emphasizes active initiation and innovation, strives to meet the demand of possessing its own intellectual property and continues to recruit top technological experts to upgrade and innovate our products. Our technical research and development focuses on improving speed, preciseness, reliability and cost and continues to consider the application of new materials and craftsmanship, efficiency of product systems and operating costs. The Group has made over 10 applications for patents of manufacturing techniques in wave soldering system, screen printers and reflow system, which were accepted by State Intellectual Property Office. The Group also prepared to apply for various patents of its semiconductor packaging equipment such as the products of COB and COG. The Group possesses strong business drives and clear strategies and continues to consolidate its strengths, take active action, speed up its response to the market and after-sales services, as well as enhance our corporate management and elevate our market positioning to boost the Group's overall profitability so as to provide desirable returns for its shareholders.



## Liquidity and Capital Structure

As at 31 March 2008, the Group had current assets of HK$324 million (2007: HK$314 million) mainly comprising prepayments, deposits and other receivables of HK$13 million (2007: approximately HK$9 million), inventories of HK$116 million (2007: approximately HK$113 million), trade receivables of HK$117 million (2007: approximately HK$112 million) and cash and cash equivalents and pledged bank balances of HK$79 million (2007: HK$80 million). The Group had current liabilities of HK$185 million (2007: approximately HK$179 million). The current ratio were 1.75 for the year ended 31 March 2008 (2007: 1.75).

As at 31 March 2008, the Group had total assets of HK$495 million (2007: approximately HK$477 million) and total liabilities of HK$191 million (2007: approximately HK$186 million). The gearing ratio (calculated as a percentage of debt to equity) was 9% (2007: 6%).

## Financial Resources

As at 31 March 2008, the Group had interest-bearing and other bank borrowings of HK$26 million (2007: approximately HK$18 million), of which HK$25 million (2007: HK$18 million) are denominated in Renminbi and mainly used for the PRC's operating expenses and working capital. Approximately 98% 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 2008, 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 2008, cash and cash equivalents and pledged bank balances amounted to HK$79 million (2007: approximately HK$80 million), of which HK$28 million (2007: 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 certain of the Group's leasehold land and buildings, which had an aggregate net book amount at the balance sheet date of HK$2,870,000 (2007: HK$2,390,000);

(ii) pledged bank deposits of HK$2,261,000 (2007: HK$2,110,000); and

(iii) corporate guarantees provided by the Company.

## Employees and Remuneration Policies

As at 31 March 2008, the Group employed approximately 1,400 full time employees in the PRC and approximately 20 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 Report

## 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 2008 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 13 under the subject Board Meeting attendance records. Biographies of the Directors which include relationship among members of the Board are set out on pages 18 to 19 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 | (Resigned on 15 March 2008) | 1/4 |
| Mr. Li Wanshou | (Appointed on 15 March 2008) | 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 is 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. Li Wanshou 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. Li Wanshou, 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 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 31 March 2008, 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 Company and of the Group and of the Group's results and its cash flows.

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 | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| **RESULTS** | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **434,412** | 500,426 | 458,296 | 521,928 | 443,218 |
| (Loss)/Profit before income tax | **(1,011)** | 828 | (38,184) | 34,199 | 40,346 |
| Income tax credit/(expense) | **1,516** | 1,369 | 1,004 | (1,958) | (206) |
| Profit/(Loss) for the year attributable to equity holders | **505** | 2,197 | (37,180) | 32,241 | 40,140 |

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **ASSETS AND LIABILITIES** | | | | | |
| TOTAL ASSETS | **495,127** | 477,208 | 450,153 | 499,797 | 474,018 |
| TOTAL LIABILITIES | **(191,315)** | (185,507) | (180,151) | (191,448) | (213,245) |
| | **303,812** | 291,701 | 270,002 | 308,349 | 260,773 |

# Directors Profile

## Executive Directors

Mr. BUT Tin Fu, aged 50, 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 21 years of experience in the electronics industry. He is a brother of Mr. But Tin Hing.

Mr. BUT Tin Hing, aged 52, 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 24 years of experience in the electronics industry. He is a brother of Mr. But Tin Fu.

Mr. LEUNG Cheong, aged 47, 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 21 years of experience in the electronics industry. He is a brother of Mr. Leung Kuen, Ivan.

Mr. LEUNG Kuen, Ivan, aged 51, 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 17 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. LI Wanshou, aged 44, obtained PhD degrees in both Management Sciences and Engineering from Xi'an Jiaotong University. He is currently guest professor of Nankai University, guest researcher at Center of Public Policy Research, China Academy of Social Sciences and deputy director of the Venture Capital Research Center at Fudan University. Mr. Li is currently the President of Shenzhen Capital Group Co., Ltd and the General Manager of Shenzhen Capital Co. Ltd.

## Independent Non-executive Directors (continued)

Prof. XU Yang Sheng, aged 50, 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 45, 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 18 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.

# Report of the Directors

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 2008.

## 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 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 102.

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 17. 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 2008, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK$119,791,000. 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 10% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 59% of total purchases for the year and purchases from the largest supplier included therein amounted to approximately 50%.

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. Li Wanshou* (appointed on 15 March 2008)

Mr. Yau Wing Keung, Frankie (resigned on 15 March 2008)

* Members of the audit committee

## Directors (continued)

In accordance with clauses 87 and 88 of the Company's bye-laws, Messrs But Tin Hing, Mr. See Tak Wah and Prof. Xu Yang Sheng will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Pursuant to Bye-laws 86(2), Mr. Li Wanshou, being a Director appointed on 15 March 2008 to fill a casual vacancy on the Board shall hold office only until the AGM and shall retire and, being eligible, offer himself for re-election at the AGM.

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 18 to 19 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' Interests in Shares and Underlying Shares

At 31 March 2008, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

### (i) Long position in the shares

| Name of Directors | Number of the ordinary 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.

The interests of the directors in the share options of the Company are separately disclosed in note 31 to the financial statements.

Save as disclosed above, as at 31 March 2008, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## Directors' Interests in Shares and Underlying 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 | Exercise price per Share Option | Number of share options | | |
|---|---|---|---|---|---|---|
| | | | | Adjusted number after rights issue | Movement during the year | At 31 March 2008 |
| | | | HK$ | | (Note) | |
| 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 2008.

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 2008.

## 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 2008, 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 ordinary shares held | Approximate percentage of total shareholding % |
|---|---|---|---|---|
| **Substantial Shareholder** | | | | |
| Mind Seekers | | Beneficial owner | 220,605,840 | 42.02 |
| 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 will retire at the conclusion of the Company's forthcoming annual general meeting and a resolution for the reappointment of Grant Thornton as auditors of the Company will be proposed at the said meeting.

ON BEHALF OF THE BOARD

**But Tin Fu**
*Chairman*

Hong Kong
28 July 2008

Grant Thornton
均富

Member of Grant Thornton International Ltd

**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 29 to 102, which comprise the consolidated and company balance sheets as at 31 March 2008, 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.

## Auditors' responsibility (continued)

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 2008 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

28 July 2008

# Consolidated Income Statement

*For the year ended 31 March 2008*

| | Notes | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 6 | **434,412** | 500,426 |
| Cost of sales | | **(370,754)** | (424,114) |
| **Gross profit** | | **63,658** | 76,312 |
| Other income and gains | 6 | **9,422** | 3,971 |
| Selling and distribution costs | | **(23,872)** | (25,591) |
| Administrative expenses | | **(43,581)** | (45,384) |
| Other operating expenses | | **(1,681)** | (8,593) |
| Finance costs | 8 | **(1,363)** | (1,513) |
| Share of (loss)/profit of: | | | |
| Jointly-controlled entity | | **(3,584)** | 1,606 |
| Associate | | **(10)** | 20 |
| **(Loss)/Profit before income tax** | 7 | **(1,011)** | 828 |
| Income tax credit | 11 | **1,516** | 1,369 |
| **Profit for the year** | | **505** | 2,197 |
| **Earnings per share** | 14 | | |
| – Basic | | **HK0.10 cent** | HK0.49 cent |
| – Diluted | | **N/A** | N/A |

# Consolidated Balance Sheet

*As at 31 March 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **154,148** | 143,064 |
| Investment properties | 16 | **–** | 2,350 |
| Prepaid land lease payments | 17 | **10,007** | 6,900 |
| Intangible assets | 18 | **–** | 467 |
| Interests in jointly-controlled entity | 20 | **6,000** | 9,676 |
| Interests in associate | 21 | **1,020** | 1,030 |
| | | **171,175** | 163,487 |
| **Current assets** | | | |
| Inventories | 22 | **115,559** | 112,908 |
| Trade receivables | 23 | **116,825** | 112,159 |
| Prepayments, deposits and other receivables | | **12,859** | 8,646 |
| Taxes recoverable | | **18** | 71 |
| Pledged bank balances | 24 | **2,261** | 2,110 |
| Cash and cash equivalents | 24 | **76,430** | 77,827 |
| | | **323,952** | 313,721 |
| **Current liabilities** | | | |
| Trade and bill payables | 25 | **88,797** | 93,502 |
| Other payables and accruals | | **51,211** | 49,049 |
| Interest-bearing bank and other borrowings | 26 | **25,752** | 17,628 |
| Taxes payable | | **19,127** | 19,206 |
| | | **184,887** | 179,385 |
| **Net current assets** | | **139,065** | 134,336 |
| **Total assets less current liabilities** | | **310,240** | 297,823 |

# Consolidated Balance Sheet (continued)

*As at 31 March 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Interest-bearing bank and other borrowings | 26 | **390** | 690 |
| Deferred tax liabilities | 29 | **6,038** | 5,432 |
| | | **6,428** | 6,122 |
| **Net assets** | | **303,812** | 291,701 |
| **EQUITY** | | | |
| **Equity attributable to Company's equity holders** | | | |
| Share capital | 30 | **52,500** | 52,500 |
| Reserves | 32(a) | **251,312** | 239,201 |
| **Total equity** | | **303,812** | 291,701 |



**But Tin Fu**
*Director*

**Leung Cheong**
*Director*

# Balance Sheet

*As at 31 March 2008*

| | Notes | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **189** | 80 |
| Interests in subsidiaries | 19 | **115,668** | 115,668 |
| | | **115,857** | 115,748 |
| **Current assets** | | | |
| Due from subsidiaries | 19 | **149,417** | 140,512 |
| Prepayments | | **461** | 374 |
| Taxes recoverable | | **18** | 71 |
| Cash and cash equivalents | 24 | **475** | 11,693 |
| | | **150,371** | 152,650 |
| **Current liabilities** | | | |
| Due to a subsidiary | 19 | **105** | 1,109 |
| Other payables and accruals | | **1,112** | 1,391 |
| | | **1,217** | 2,500 |
| **Net current assets** | | **149,154** | 150,150 |
| **Net assets** | | **265,011** | 265,898 |
| **EQUITY** | | | |
| Share capital | 30 | **52,500** | 52,500 |
| Reserves | 32(b) | **212,511** | 213,398 |
| **Total equity** | | **265,011** | 265,898 |

**But Tin Fu**
*Director*

**Leung Cheong**
*Director*

# Consolidated Statement of Changes in Equity

*For the year ended 31 March 2008*

| | Share capital HK$'000 | Share premium* HK$'000 | Contributed surplus* HK$'000 (note 32(a)) | Asset revaluation reserve* HK$'000 | Exchange reserve* HK$'000 | Reserve and enterprise expansion funds* HK$'000 | Share based payment reserve* HK$'000 | Retained profits* HK$'000 | Total equity 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 |

# Consolidated Statement of Changes in Equity (continued)

*For the year ended 31 March 2008*

| | Share capital HK$'000 | Share premium* HK$'000 | Contributed surplus* HK$'000 (note 32(a)) | Asset revaluation reserve* HK$'000 | Exchange reserve* HK$'000 | Reserve and enterprise expansion funds* HK$'000 | Share based payment reserve* HK$'000 | Retained profits* HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 April 2007 | 52,500 | 87,728 | 4,800 | 7,821 | 3,769 | 1,997 | 4,992 | 128,094 | 291,701 |
| Surplus on revaluation | – | – | – | 9,425 | – | – | – | – | 9,425 |
| Exchange realignment | – | – | – | – | 4,255 | – | – | – | 4,255 |
| Deferred tax relating to revaluation of leasehold land and buildings (note 29) | – | – | – | (2,074) | – | – | – | – | (2,074) |
| Total income and expenses for the year recognised directly in equity | – | – | – | 7,351 | 4,255 | – | – | – | 11,606 |
| Net profit for the year | – | – | – | – | – | – | – | 505 | 505 |
| Total recognised income and expenses for the year | – | – | – | 7,351 | 4,255 | – | – | 505 | 12,111 |
| Appropriations | – | – | – | – | – | 248 | – | (248) | – |
| **Balance at 31 March 2008** | **52,500** | **87,728** | **4,800** | **15,172** | **8,024** | **2,245** | **4,992** | **128,351** | **303,812** |

* These reserve accounts comprise the consolidated reserves of HK$251,312,000 (2007: HK$239,201,000) in the consolidated balance sheet.

# Consolidated Cash Flow Statement

*For the year ended 31 March 2008*

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| (Loss)/Profit before income tax | **(1,011)** | 828 |
| Adjustments for: | | |
| Finance costs | **1,363** | 1,513 |
| Share of loss/(profit) of jointly-controlled entity and associate | **3,594** | (1,626) |
| Interest income | **(1,695)** | (1,627) |
| Depreciation | **15,257** | 15,374 |
| Amortisation of technical know-how | **467** | 5,500 |
| Amortisation of prepaid land lease payments | **183** | 160 |
| Loss on disposals of property, plant and equipment | **38** | 546 |
| Changes in fair value of investment properties | **(812)** | (330) |
| Provision for impairment of trade receivables | **1,308** | 7,041 |
| Write-down of inventories to net realisable value | **428** | 1,297 |
| Operating profit before working capital changes | **19,120** | 28,676 |
| Increase in inventories | **(3,079)** | (19,247) |
| Increase in trade receivables | **(5,974)** | (23,487) |
| (Increase)/decrease in prepayments, deposits and other receivables | **(4,190)** | 16,524 |
| (Decrease)/increase in trade and bill payables | **(4,705)** | 8,974 |
| Increase in other payables and accruals | **2,162** | 7,312 |
| Cash generated from operations | **3,334** | 18,752 |
| Interest paid | **(1,307)** | (1,421) |
| Interest element on finance lease rental payments | **(56)** | (92) |
| Hong Kong profits tax refunded/(paid) | **489** | (6) |
| Overseas taxes (paid)/refunded | **(467)** | 48 |
| *Net cash generated from operating activities* | **1,993** | 17,281 |

# Consolidated Cash Flow Statement (continued)

*For the year ended 31 March 2008*

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Interest received | **1,695** | 1,627 |
| Purchases of property, plant and equipment | **(6,495)** | (13,410) |
| Land lease prepayments | **(2,531)** | – |
| Proceeds from disposals of property, plant and equipment | **172** | 399 |
| Proceeds from disposals of a subsidiary | **–** | 150 |
| Proceeds from disposals of investment properties | **3,162** | – |
| Increase in pledged bank balances with original maturity of more than three months when acquired, pledged as security for trade finance facilities | **(151)** | (2,110) |
| Capital injection to jointly-controlled entity | **–** | (2,500) |
| *Net cash used in investing activities* | **(4,148)** | (15,844) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of shares | **–** | 18,000 |
| Share issue expenses | **–** | (922) |
| Proceeds from bank loans | **18,087** | 29,116 |
| Repayments of bank loans | **(10,163)** | (37,029) |
| Capital element of finance lease rental payments | **(680)** | (1,748) |
| *Net cash generated from financing activities* | **7,244** | 7,417 |
| **Net increase in cash and cash equivalents** | **5,089** | 8,854 |
| Cash and cash equivalents at beginning of the year | **77,827** | 72,742 |
| Effect of foreign exchange rate changes, net | **(6,486)** | (3,769) |
| **Cash and cash equivalents at end of the year** | **76,430** | 77,827 |
| **Analysis of balances of cash and cash equivalents** | | |
| Cash and bank balances excluding pledged bank balances | **61,225** | 70,805 |
| Non-pledged time deposits with original maturity of less than three months when acquired | **15,205** | 7,022 |
| | **76,430** | 77,827 |

# 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 activities 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 29 to 102 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 2008 were approved for issue by the board of directors on 28 July 2008.

# 2. Adoption of New and Amended HKFRSs

**2.1** In the current year, the Company and its subsidiaries (collectively referred to as the "Group") has applied, for the first time, the following new standards, amendment and interpretations issued by the HKICPA, which are relevant and effective for the Group's financial period beginning on 1 April 2007.

| | |
|---|---|
| HKAS 1 (Amendment) | Presentation of Financial Statements-Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Interpretation 8 | Scope of HKFRS 2 |

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

# 2. Adoption of New and Amended HKFRSs (continued)

## 2.2 HKAS 1 (Amendment) – Capital Disclosures

In accordance with the HKAS 1 (Amendment) – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change in HKAS 1 are set out in note 38.

## 2.3 HKFRS 7 – Financial Instruments: Disclosures

HKFRS 7 – Financial Instruments: Disclosures is mandatory for reporting period beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 Financial Instruments: Presentation and Disclosures and has been adopted by the Group in its consolidated financial statements for the year ended 31 March 2008. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. In particular, the Group's financial statements now feature:



- a sensitivity analysis, to explain the Group's market risk exposure in regards to its financial instruments, and
- a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments of cash-flows, net income or balance sheet line items.

## 2.4 New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective for the year ended 31 March 2008.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements [1] |
| HKAS 23 (Revised) | Borrowing Costs [1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements – Consequential amendments arising from amendments to HKFRS 3 [2] |

# 2. Adoption of New and Amended HKFRSs (continued)

## 2.4 New or amended HKFRSs that have been issued but are not yet effective (continued)

| | |
|---|---|
| HKAS 28 (Amendments) | Investments in Associates – Consequential amendments arising from amendments to HKFRS 3 [2] |
| HKAS 31 (Amendments) | Interests in Joint Ventures – Consequential amendments arising from amendments to HKFRS 3 [2] |
| HKAS 32 (Amendments) | Financial Instruments: Presentation – Amendments relating to puttable financial instruments and obligations arising on liquidation [1] |
| HKAS 39 (Amendments) | Financial Instruments: Recognition and measurement – Amendments relating to puttable financial instruments and obligations arising on liquidation [1] |
| HKFRS 2 (Amendments) | Share-based Payment – Amendment relating to vesting conditions and cancellations [1] |
| HKFRS 3 (Revised) | Business Combinations – Comprehensive revision on applying the acquisition method [2] |
| HKFRS 7 (Amendments) | Financial Instruments: Disclosures – Amendments relating to puttable financial instruments and obligations arising on liquidation [1] |
| HKFRS 8 | Operating Segments [1] |
| HK(IFRIC) – Interpretation 12 | Service Concession Arrangements [3] |
| HK(IFRIC) – Interpretation 13 | Customer Loyalty Programmes [4] |
| HK(IFRIC) – Interpretation 14 | HKAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction [3] |

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 January 2008

4 Effective for annual periods beginning on or after 1 July 2008

## 2. Adoption of New and Amended HKFRSs (continued)

### 2.4 New or amended HKFRSs that have been issued but are not yet effective (continued)

Among these new HKFRSs, HKAS 1 (Revised) is expected to be relevant to the Group's financial statements. This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Group but may give rise to additional disclosures.

The directors of the Company are currently assessing the impact of other new or amended HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's consolidated financial statements.



## 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 convention 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. Summary of Significant Accounting Policies (continued)

## 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.

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. Summary of Significant Accounting Policies (continued)

## 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.

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. Summary of Significant Accounting Policies (continued)

## 3.5 Jointly-controlled entity

A jointly-controlled entity is a joint 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.

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.

# 3. Summary of Significant Accounting Policies (continued)

### 3.5 Jointly-controlled entity (continued)

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.

### 3.6 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 denominated in foreign currencies at year-end exchange rate 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. Summary of Significant Accounting Policies (continued)

## 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 are amortised on the straight-line method 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.

## 3.8 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.

# 3. Summary of Significant Accounting Policies (continued)

## 3.8 Property, plant and equipment (continued)

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

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 leasehold 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. Summary of Significant Accounting Policies (continued)

## 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 properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are 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 properties. 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 investment properties are included in the income statement for the period in which they arise.

## 3.10 Impairment of assets

Intangible assets, property, plant and equipment, prepaid land lease payments, interests in subsidiaries, associate and jointly controlled entity 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.

# 3. Summary of Significant Accounting Policies (continued)

## 3.10 Impairment of assets (continued)

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.

## 3.11 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;

# 3. Summary of Significant Accounting Policies (continued)

## 3.11 Related parties (continued)

(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

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*(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.

*(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 finance leases liabilities.

# 3. Summary of Significant Accounting Policies (continued)

## 3.12 Leases (continued)

(ii) *Assets acquired under finance leases* (continued)

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.

(iii) *Operating lease charges as the lessee*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line method 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 mainly classifies its financial assets into loans and receivables.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, that is, the date that the Group commits to purchase or sell the asset. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

# 3. Summary of Significant Accounting Policies (continued)

### 3.13 Financial assets (continued)

Derecognition of financial assets occurs when the rights to receive cash flows from the receivables/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 of such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using the effective interest rate 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.

### 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, time 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. Summary of Significant Accounting Policies (continued)

## 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.

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. Summary of Significant Accounting Policies (continued)

## 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. This is usually taken as the time when the goods are delivered and the buyer has accepted the goods;

(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.

# 3. Summary of Significant Accounting Policies (continued)

## 3.18 Employee benefits (continued)

*Share-based payment transactions* (continued)

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.

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.

# 3. Summary of Significant Accounting Policies (continued)

## 3.18 Employee benefits (continued)

*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.

*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. Summary of Significant Accounting Policies (continued)

## 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.

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.

## 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 income statement 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

The Group's financial liabilities include trade and bills payables, other payables and accruals and interest-bearing bank and other borrowings.

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 finance costs in the income statement. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

*(i) Bank and other borrowings*

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 rate method.

*(ii) Trade and bills payables, other payables and accruals*

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate 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 Impairment of financial assets

At each balance sheet date, financial assets carried at amortised cost are reviewed to determine whether there is any objective evidence of impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, 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 the income statement of the period in which the impairment occurs.

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 the income statement of the period in which the reversal occurs.

## 3.23 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*

Property, plant and equipment (note 15) is 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 has 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 of the Group as at 31 March 2008 were approximately HK$154,148,000 (2007: HK$143,064,000).

*(ii) 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.

*(iii) 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.

## 4. Critical Accounting Estimates and Judgements (continued)

### Estimation uncertainty (continued)

*(iv) 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 reassesses 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*

In assessing the estimated useful lives of the property, plant and equipment, 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

# 5. Segment Information (continued)

(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.

## (a) Business segments

The following tables present revenue, profit and certain assets, liabilities and expenditure information for the Group's business segments for the years ended 31 March 2008 and 2007.

| | Production lines and production equipment | | Brand name production equipment | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 |
| Segment revenue: | | | | | | |
| Sales to external customers | **268,145** | 316,925 | **166,267** | 183,501 | **434,412** | 500,426 |
| Other revenue-external | **6,067** | 2,261 | **–** | – | **6,067** | 2,261 |
| Total | **274,212** | 319,186 | **166,267** | 183,501 | **440,479** | 502,687 |
| Segment results | **(14,135)** | (26,426) | **14,726** | 25,431 | **591** | (995) |
| Interest and unallocated income | | | | | **3,355** | 1,710 |
| Finance costs | | | | | **(1,363)** | (1,513) |
| Share of (loss)/profit of: | | | | | | |
| Jointly-controlled entity | **(3,584)** | 1,606 | **–** | – | **(3,584)** | 1,606 |
| Associate | **(10)** | 20 | **–** | – | **(10)** | 20 |
| (Loss)/Profit before income tax | | | | | **(1,011)** | 828 |
| Income tax credit | | | | | **1,516** | 1,369 |
| Profit for the year | | | | | **505** | 2,197 |

# 5. Segment Information (continued)

## (a) Business segments (continued)

| | Production lines and production equipment | | Brand name production equipment | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment assets | **333,487** | 324,435 | **72,561** | 58,709 | **406,048** | 383,144 |
| Interests in jointly-controlled entity | **6,000** | 9,676 | **–** | – | **6,000** | 9,676 |
| Interests in associate | **1,020** | 1,030 | **–** | – | **1,020** | 1,030 |
| Unallocated assets | | | | | **82,059** | 83,358 |
| Total assets | | | | | **495,127** | 477,208 |
| Segment liabilities | **75,089** | 87,819 | **63,423** | 48,157 | **138,512** | 135,976 |
| Unallocated liabilities | | | | | **52,803** | 49,531 |
| Total liabilities | | | | | **191,315** | 185,507 |
| Other segment information: | | | | | | |
| Depreciation and amortisation | **15,907** | 21,034 | **–** | – | **15,907** | 21,034 |
| Capital expenditure | **9,606** | 13,410 | **–** | – | **9,606** | 13,410 |
| Provision for impairment of trade receivables | **1,308** | 7,041 | **–** | – | **1,308** | 7,041 |
| Write down of inventories to net realisable value | **428** | 1,297 | **–** | – | **428** | 1,297 |
| Loss on disposals of items of property, plant and equipment | **38** | 546 | **–** | – | **38** | 546 |

# 5. Segment Information (continued)

## (b) Geographical segments

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

Segment revenue:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong | **31,175** | 74,470 |
| Mainland China | **368,564** | 378,762 |
| Europe (principally Spain and Germany) | **18,316** | 20,742 |
| Others (principally Japan and Singapore) | **16,357** | 26,452 |
| | **434,412** | 500,426 |



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

| | **Segment assets** | | **Capital expenditure** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong | **163,206** | 232,397 | **6,149** | 10,923 |
| Mainland China | **327,204** | 241,118 | **3,457** | 2,487 |
| Europe (principally Spain and Germany) | **2,543** | 11 | **–** | – |
| Others (principally Japan and Singapore) | **2,174** | 3,682 | **–** | 2,500 |
| | **495,127** | 477,208 | **9,606** | 15,910 |

# 6. Revenue, Other Income and Gains

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

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| **Revenue – sale of goods** | **434,412** | 500,426 |
| **Other income:** | | |
| Gross rental income from investment properties | **62** | 83 |
| Bank interest income | **1,695** | 1,627 |
| Service income | **3,022** | 872 |
| Others | **2,233** | 1,059 |
| | **7,012** | 3,641 |
| **Gains:** | | |
| Changes in fair value of investment properties | **812** | 330 |
| Exchange gains, net | **1,598** | – |
| | **2,410** | 330 |
| | **9,422** | 3,971 |

# 7. (Loss)/Profit Before Income Tax

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| (Loss)/Profit before income tax is arrived at after charging: | | |
| Cost of inventories sold | **302,469** | 346,522 |
| – including write-down of inventories to net realisable value | **428** | 1,297 |
| Depreciation | | |
| – owned assets | **14,677** | 14,516 |
| – leased assets | **580** | 858 |
| Minimum lease payments under operating leases in respect of leasehold land and buildings | **1,330** | 1,565 |
| Auditors' remuneration | **900** | 900 |
| Staff costs (including directors' remuneration (note 9) and retirement scheme contribution) ** | **60,280** | 57,298 |
| Amortisation of technical know-how * | **467** | 5,500 |
| Amortisation of prepaid land lease payments | **183** | 160 |
| Provision for impairment of trade receivables | **1,308** | 7,041 |
| Exchange losses, net | **–** | 144 |
| Loss on disposals of property, plant and equipment | **38** | 546 |

* Amortisation of technical know-how of approximately HK$467,000 (2007: approximately HK$5,500,000) has been included in cost of sales on the face of the consolidated income statement.

** Retirement scheme contribution of approximately HK$224,000 (2007: approximately HK$213,000) has been included in staff costs.

# 8. Finance Costs

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Interest on bank loans | **1,307** | 1,421 |
| Interest on finance leases | **56** | 92 |
| Total interest on financial liabilities stated at amortised cost | **1,363** | 1,513 |

# 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 | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Fees: | | |
| Independent non-executive directors | **355** | 360 |
| Other emoluments of executive directors: | | |
| Salaries, allowances and benefits in kind | **4,437** | 3,658 |
| Pension scheme contributions | **48** | 48 |
| | **4,840** | 4,066 |



## (a) Independent non-executive directors

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Mr. See Tak Wah | **120** | 120 |
| Prof. Xu Yang Sheng | **120** | 120 |
| Mr. Yau Wing Keung, Frankie (resigned on 15 March 2008) | **110** | 120 |
| Mr. Li Wanshou (appointed on 15 March 2008) | **5** | – |
| | **355** | 360 |

There were no other emoluments payable to the independent non-executive directors during the year (2007: nil).

# 9. Directors' Remuneration (continued)

## (b) Executive directors

| | Group | | | |
|---|---|---|---|---|
| | Fees | Salaries, allowances and benefits in kind | Pension scheme contributions | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **2008** | | | | |
| Mr. But Tin Fu | **–** | **1,100** | **12** | **1,112** |
| Mr. But Tin Hing | **–** | **1,234** | **12** | **1,246** |
| Mr. Leung Cheong | **–** | **1,003** | **12** | **1,015** |
| Mr. Leung Kuen, Ivan | **–** | **1,100** | **12** | **1,112** |
| | **–** | **4,437** | **48** | **4,485** |
| 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 |

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 (2007: four) directors, details of whose remuneration are set out in note 9 above. The remuneration of the remaining one (2007: one) highest paid employee for the year is set out as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Salary, allowances and benefits in kind | **551** | 1,040 |
| Pension scheme contributions | **12** | – |
| | **563** | 1,040 |

## 11. Income Tax Credit



Hong Kong profits tax has been provided at the rate of 17.5% (2007: 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 | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Current – Hong Kong | | |
| Tax for the year | **205** | 19 |
| Overprovision in prior years | **(463)** | (266) |
| Deferred tax (note 29) | **(1,468)** | 1,343 |
| Income tax (credit)/expense | **(1,726)** | 1,096 |
| Current – Mainland China | | |
| Tax for the year | **210** | 46 |
| Overprovision in prior years | **–** | (2,511) |
| Income tax expense/(credit) | **210** | (2,465) |
| Total income tax credit | **(1,516)** | (1,369) |

## 11. Income Tax Credit (continued)

A reconciliation of the income tax credit applicable to (loss)/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:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| (Loss)/Profit before income tax | **(1,011)** | 828 |
| Tax at the statutory tax rate | **(154)** | 308 |
| Different tax rate for specific provinces or local authority | **(312)** | (462) |
| Overprovision in prior years | **(463)** | (2,777) |
| Income not subject to tax | **(2,551)** | (2,369) |
| Expenses not deductible for tax | **1,484** | 2,373 |
| Tax losses utilised from previous years | **(321)** | (663) |
| Tax losses not recognised | **1,023** | 2,981 |
| Others | **(222)** | (760) |
| Tax credit at the Group's effective rate | **(1,516)** | (1,369) |

## 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 2008 include a loss of HK$887,000 (2007: profit of HK$164,000) which has been dealt with in the financial statements of the Company (note 32(b)).

## 13. Dividends

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

## 14. Earnings Per Share

The calculation of basic earnings per share amount is based on the net profit for the year of approximately HK$505,000 (2007: HK$2,197,000) attributable to equity holders of the Company, and the number of 525,000,000 (2007: weighed average of 449,754,373 as adjusted to reflect the rights issue) ordinary shares in issue during the year.

There has been no dilutive effect on the basic earnings per share for the years ended 31 March 2008 and 2007 as the exercise prices of the outstanding share options were higher than the average market price of the Company's shares during the years.

# 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 1 April 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 |
| Year ended 31 March 2008 | | | | | |
| Opening net book amount | 93,440 | 35,454 | 10,765 | 3,405 | 143,064 |
| Additions | – | 4,164 | 2,331 | 580 | 7,075 |
| Disposals | – | (136) | (3) | (71) | (210) |
| Surplus on revaluation | 9,425 | – | – | – | 9,425 |
| Depreciation | (5,630) | (6,391) | (2,665) | (571) | (15,257) |
| Exchange realignment | 7,825 | 1,087 | 885 | 254 | 10,051 |
| Closing net book amount | 105,060 | 34,178 | 11,313 | 3,597 | 154,148 |
| At 31 March 2008 | | | | | |
| Cost or valuation | 105,060 | 90,073 | 30,603 | 8,977 | 234,713 |
| Accumulated depreciation | – | (55,895) | (19,290) | (5,380) | (80,565) |
| Net book amount | 105,060 | 34,178 | 11,313 | 3,597 | 154,148 |
| Analysis of cost or valuation: | | | | | |
| At cost | – | 90,073 | 30,603 | 8,977 | 129,653 |
| At 2008 valuation | 105,060 | – | – | – | 105,060 |
| | 105,060 | 90,073 | 30,603 | 8,977 | 234,713 |

# 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 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)

## Company

| | Machinery and equipment HK$'000 |
|---|---|
| At 1 April 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 |
| **Year ended 31 March 2008** | |
| Opening net book amount | 80 |
| Addition | 139 |
| Depreciation | (30) |
| **Closing net book amount** | 189 |
| At 31 March 2008 | |
| Cost | 299 |
| Accumulated depreciation | (110) |
| **Net book amount** | 189 |

## 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 fair value of HK$5,790,000 (2007:HK$4,840,000) on open market basis and HK$99,270,000 (2007: HK$88,600,000) on depreciated replacement cost method, respectively. Revaluation surpluses of HK$9,425,000 (2007: HK$961,000), resulting from the above valuations, have been credited to the 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$87,069,000 (2007: HK$84,927,000).

The net book amount of the Group's property, plant and equipment held under finance leases includes certain machinery and equipment of HK$1,288,000 (2007: HK$1,662,000) at 31 March 2008.



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

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Hong Kong | **5,790** | 4,840 |
| Mainland China | **99,270** | 88,600 |
| | **105,060** | 93,440 |

At 31 March 2008, certain of the Group's leasehold land and buildings with net book amount of approximately HK$2,870,000 (2007: HK$2,390,000) were pledged to secure general banking facilities granted to the Group (note 26).

# 16. Investment Properties

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Carrying amount at beginning of the year | **2,350** | 2,020 |
| Net gain from fair value adjustments | **812** | 330 |
| Disposals | **(3,162)** | – |
| Carrying amount at end of the year | **–** | 2,350 |

The Group's investment properties situated in Hong Kong were sold to a third party during the year. At 31 March 2007, the Group's investment properties with a value of HK$2,350,000 were pledged to secure general banking facilities granted to the Group.

# 17. Prepaid Land Lease Payments

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Carrying amount at beginning of the year | **7,060** | 6,912 |
| Additions | **2,531** | – |
| Recognised during the year | **(183)** | (160) |
| Exchange realignment | **782** | 308 |
| Carrying amount at end of the year | **10,190** | 7,060 |
| Current portion included in prepayments, deposits and other receivables | **(183)** | (160) |
| Non-current portion | **10,007** | 6,900 |

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 | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Cost | **27,498** | 27,498 |
| Accumulated amortisation | **(27,498)** | (27,031) |
| Net carrying amount | **–** | 467 |

# 19. Interests in Subsidiaries

| | Company | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **115,668** | 115,668 |
| Due from subsidiaries | **175,879** | 166,974 |
| Less: Provision for impairment | **(26,462)** | (26,462) |
| | **149,417** | 140,512 |
| Due to a subsidiary | **(105)** | (1,109) |
| | **264,980** | 255,071 |

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 as at 31 March 2008 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 as at 31 March 2008 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$15,300,000 | – | 100 | Manufacture and trading of machinery |
| 日東電子科技(深圳)有限公司# | Mainland China | HK$20,000,000* | – | 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 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 31 March 2008, HK$20,000,000 (2007: HK$17,000,000) of the total registered capital had been contributed and the Group therefore had an outstanding investment commitment of HK$5,000,000 (2007: HK$8,000,000) in this subsidiary.

** As at 31 March 2007 and 2008, the registered capital of 日東自動化設備(上海)有限公司 amounted to US$3,250,000. As at 31 March 2007 and 2008, 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 2008 HK$'000 | Group 2007 HK$'000 |
|---|---|---|
| Share of net assets | **6,000** | 9,676 |

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 as at 31 March 2008 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 2008 HK$'000 | Group 2007 HK$'000 |
|---|---|---|
| Share of net assets | **1,020** | 1,030 |

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

## 21. Interests in Associate (continued)

Particulars of the associate as at 31 March 2008 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 | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Raw materials | **51,287** | 38,405 |
| Work in progress | **24,750** | 21,465 |
| Finished goods | **39,522** | 53,038 |
| | **115,559** | 112,908 |

# 23. Trade Receivables

Ageing analysis of trade receivables as at the balance sheet dates, based on invoice date and net of provision, is as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Within 90 days | **58,805** | 73,447 |
| 91 to 120 days | **12,203** | 4,809 |
| 121 to 180 days | **12,891** | 7,789 |
| 181 to 360 days | **24,297** | 15,072 |
| Over 360 days | **8,629** | 11,042 |
| | **116,825** | 112,159 |

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 carrying value of trade receivables is considered as reasonable approximation of fair value. Impairment of trade receivables is established when there is objective evidence that the Group is not able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors and default or delinquency in payments are considered indicators that the trade receivables are impaired. All of the Group's trade receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and bad debts of HK$1,308,000 for the year ended 31 March 2008 (2007: HK$7,041,000) have been recognised. The impaired trade receivables are mostly due from customers in the Group's business-to-business market that encounter financial difficulties.

# 23. Trade Receivables (continued)

Movements in the provision for impairment of trade receivables during the year are as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| At beginning of the year | **32,886** | 25,845 |
| Provision made | **1,308** | 7,041 |
| At end of the year | **34,194** | 32,886 |

In addition, some of the unimpaired trade receivables are past due as at the reporting date. Ageing analysis of trade receivables not impaired is as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Neither past due nor impaired | **58,805** | 73,447 |
| 1 to 30 days past due | **12,203** | 4,809 |
| 31 to 90 days past due | **12,891** | 7,789 |
| 91 to 270 days past due | **24,297** | 15,072 |
| 271 to 360 days past due | **1,885** | 5,040 |
| Over 360 days past due | **6,744** | 6,002 |
| Total trade receivables, net | **116,825** | 112,159 |

The directors of the Company are of the opinion that no further impairment of trade receivables is necessary as there was no recent history of default in respect of these trade receivables.

## 23. Trade Receivables (continued)

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **'000** | '000 |
| US dollars ("US$") | **US$ 4,930** | US$ 3,096 |
| Japanese Yen ("JPY") | **–** | JPY 13,779 |
| Renminbi ("RMB") | **RMB 4,864** | RMB 4,443 |

Included in the Group's trade receivables are amounts due from the Group's jointly-controlled entity and associate of HK$4,519,000 (2007: HK$3,507,000) and HK$10,000 (2007: HK$10,000), respectively, which are unsecured, interest-free and repayable within 30 days.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances | **63,486** | 72,915 | **475** | 11,693 |
| Time deposits | **15,205** | 7,022 | **–** | – |
| | **78,691** | 79,937 | **475** | 11,693 |
| Less: Pledged bank balances for trade finance facilities | **(2,261)** | (2,110) | **–** | – |
| | **76,430** | 77,827 | **475** | 11,693 |

At the balance sheet date, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$25,739,000 (2007: HK$8,051,000). 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.

## 24. Cash and Cash Equivalents and Pledged Bank Balances (continued)

Cash at bank earns interest at floating rates based on the daily bank deposits rates ranging between 0.7% and 3.8% (2007: 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

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Within 90 days | **68,661** | 63,298 |
| 91 to 120 days | **6,825** | 16,514 |
| Over 120 days | **13,311** | 13,690 |
| | **88,797** | 93,502 |

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:

| | **2008** | 2007 |
|---|---|---|
| | **'000** | '000 |
| US dollars | **US$ 4,368** | US$ 5,100 |
| Japanese Yen | **JPY 3,695** | JPY 824 |
| Renminbi | **RMB 5,319** | RMB 4,983 |

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 per annum | | Maturity | | Group | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | % | % | | | HK$'000 | HK$'000 |
| **Current** | | | | | | |
| Finance lease liabilities (note 27) | 3 | 3 | 2008 | 2007 | 455 | 433 |
| Secured bank loans | 6.6 | 5.6 | 2008 | 2007 | 25,297 | 17,195 |
| | | | | | 25,752 | 17,628 |
| **Non-current** | | | | | | |
| Finance lease liabilities (note 27) | 3 | 3 | 2009-2011 | 2008-2009 | 390 | 512 |
| Secured bank loans | – | 5.6 | – | 2008 | – | 178 |
| | | | | | 390 | 690 |
| Total borrowings | | | | | 26,142 | 18,318 |

| | Group | |
|---|---|---|
| | 2008 | 2007 |
| | HK$'000 | HK$'000 |
| Analysed of bank loans repayable: | | |
| Within one year | 25,297 | 17,195 |
| In the second to fifth years, inclusive | – | 178 |
| | 25,297 | 17,373 |

Certain of the Group's bank loans as at the balance sheet date are secured by:

(i) a first legal charge on certain of the Group's leasehold land and buildings, which had an aggregate net book amount at the balance sheet date of HK$2,870,000(2007: HK$2,390,000) (note 15);

(ii) pledged bank deposits of HK$2,261,000 (2007: HK$2,110,000) (note 24); and

(iii) corporate guarantees provided by the Company (note 33).

## 26. Interest-Bearing Bank and Other Borrowings (continued)

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 2008, 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** | |
|---|---|---|---|---|
| | **2008 HK$'000** | 2007 HK$'000 | **2008 HK$'000** | 2007 HK$'000 |
| Within one year | **484** | 479 | **455** | 433 |
| In the second to fifth years, inclusive | **406** | 538 | **390** | 512 |
| Total minimum finance lease payments | **890** | 1,017 | **845** | 945 |
| Future finance charges | **45** | 72 | | |

## 28. Due to Directors

Included in the Group's other payables and accruals are amounts due to directors of approximately HK$1,496,000 (2007: HK$6,575,000) which are unsecured, interest-free and repayment on demand. The carrying amounts approximate to their fair values.

# 29. Deferred Tax Liabilities

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

| | Accelerated tax depreciation HK$'000 | Revaluation of properties HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 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 and 1 April 2007 | 2,409 | 2,716 | 307 | 5,432 |
| Credited to the income statement during the year (note 11) | (1,161) | – | (307) | (1,468) |
| Deferred tax relating to revaluation of property, plant and equipment | – | 2,074 | – | 2,074 |
| At 31 March 2008 | 1,248 | 4,790 | – | 6,038 |

The Group has tax losses of HK$12,947,000 (2007: HK$8,936,000) 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.

## 29. Deferred Tax Liabilities (continued)

At 31 March 2008, there was no significant unrecognised deferred tax liabilities (2007: 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

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Authorised: | | |
| 2,000,000,000 ordinary shares of HK$0.10 each | **200,000** | 200,000 |
| Issued and fully paid: | | |
| 525,000,000 (2007: 525,000,000) ordinary shares of HK$0.10 each | **52,500** | 52,500 |

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

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| At the beginning of the year | **52,500** | 37,500 |
| Rights issue * | **–** | 15,000 |
| At the end of the year | **52,500** | 52,500 |

* During the year ended 31 March 2007, 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 of HK$0.12 per rights share, 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

### 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)

## 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:

| | Date of grant | Exercise price per share HK$ | Exercisable period | Outstanding at 1 April 2006, 31 March 2007 and 1 April 2007 | Granted during the year | Exercised/ Cancelled/ Lapsed during the year | Outstanding at 31 March 2008 |
|---|---|---|---|---|---|---|---|
| **Directors:** | | | | | | | |
| 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)

### Share option scheme (continued)

No additional options were granted for the year ended 31 March 2008. 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 33 to 34 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 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 and 1 April 2007 | 87,728 | 115,468 | 4,992 | 5,210 | 213,398 |
| Net loss for the year | – | – | – | (887) | (887) |
| **At 31 March 2008** | **87,728** | **115,468** | **4,992** | **4,323** | **212,511** |

# 32. Reserves (continued)

## (b) Company (continued)

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. Financial Guarantee Contracts-Company

The Company has executed guarantees amounting to approximately HK$126,487,000 (2007: HK$130,088,000) 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.



# 34. 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 five years.

At 31 March 2008, the Group had total future minimum lease payments under non cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Within one year | **213** | 47 |
| In the second to fifth years, inclusive | **639** | – |
| | **852** | 47 |

At the balance sheet date, the Company had no significant commitments (2007: nil).

# 35. 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 | |
|---|---|---|---|
| | | **2008** | 2007 |
| | | **HK$'000** | HK$'000 |
| Sales to jointly-controlled entity | (i) | **3,567** | 8,139 |
| Purchases from jointly-controlled entity | (ii) | **1,287** | 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.

## (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 are 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:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Short term employee benefits | **4,988** | 4,698 |
| Post-employment benefits | **60** | 48 |
| | **5,048** | 4,746 |

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

# 36. Notes to the Consolidated Cash Flow Statement

### Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK$580,000 (2007: HK$ nil).

# 37. Risk Management Objectives and Policies

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates, currency exchange rates, credit risk and liquidity risk. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risks is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.



The Group's principal financial instruments comprise cash and bank balances, trade receivables, other receivables, trade and bills payables, other payables and accruals and interest-bearing bank and other borrowings. The most significant financial risks to which the Group is exposed to are described below.

### Interest rate risk

The Group does not have material exposure to interest rate risk, as the Group has no financial assets and liabilities of material amounts with floating interest rates. A reasonably possible change in interest rate in the next twelve months is assessed, which could have immaterial change in the Group's profits after tax and retained earnings. Changes in interest rates have no material impact on the Group's other components of equity. The Group adopts centralised treasury policies in cash and financial management and focuses on reducing the Group's overall interest expense.

The directors are of the opinion that the Group's sensitivity to the change in interest rate is low.

# 37. Risk Management Objectives and Policies (continued)

## Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales that are denominated in a currency other than the functional currency of the operations to which they related. The currency giving rise to this risk are US$, JPY and RMB. The Group reviews its foreign currency exposures regularly and does not consider its foreign exchange risk to be significant.

*Foreign currency risk exposure*

The following table details the Group's exposure at the balance sheet date to foreign currency risk from the financial assets and financial liabilities denominated in a currency other than the functional currency to which they relate:

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **US$'000** | **JPY'000** | **RMB'000** | US$'000 | JPY'000 | RMB'000 |
| Trade receivables | **4,930** | **–** | **4,864** | 3,096 | 13,779 | 4,443 |
| Cash and cash equivalents | **2,380** | **4,026** | **–** | 2,223 | 63 | – |
| Trade and bill payables | **(4,368)** | **(3,695)** | **(5,319)** | (5,100) | (824) | (4,983) |
| | **2,942** | **331** | **(455)** | 219 | 13,018 | (540) |

# 37. Risk Management Objectives and Policies (continued)

## Foreign currency risk (continued)

*Foreign currency risk sensitivity analysis*

The following table indicates the approximate change in the Group's profit after tax in response to reasonable possible strengthening/weakening in the following foreign currency rates to which the Group has significant exposure at the balance sheet date. There is no impact on other components of consolidated equity in response to the general increase/decrease in the following foreign currency rates.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Increase/ (Decrease) in foreign exchange rates % | Effect on (loss)/profit after tax and retained earnings HK$'000 | Increase/ (Decrease) in foreign exchange rates % | Effect on (loss)/profit after tax and retained earnings HK$'000 |
| US$ | 0.39% | 89 | 0.80% | 14 |
| | (0.39%) | (89) | (0.80%) | (14) |
| JPY | 17.34% | 4 | 0.37% | 3 |
| | (17.34%) | (4) | (0.37%) | (3) |
| RMB | 9.38% | (47) | 5.02% | (28) |
| | (9.38%) | 47 | (5.02%) | 28 |

The sensitivity rate of 0.39%, 17.34% and 9.38% for US$, JPY and RMB respectively is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the aforementioned change in foreign currency rates. The functional currency of the Group's major operating subsidiaries is in HK$. A strengthening/weakening of the above foreign currencies against HK$ at each balance sheet date would have had a profit/loss effect respectively to the amounts shown above, on the basis that all other variables remain constant.

The Company is not exposed to any foreign currency risk.

# 37. Risk Management Objectives and Policies (continued)

## Credit risk

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Classes of financial assets – carrying amounts | | |
| Trade receivables | **116,825** | 112,159 |
| Other receivables | **4,037** | 4,954 |
| Pledged bank balances | **2,261** | 2,110 |
| Cash and cash equivalents | **76,430** | 77,827 |
| | **199,553** | 197,050 |

| | Company | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Classes of financial assets – carrying amounts | | |
| Due from subsidiaries | **149,417** | 140,512 |
| Cash and cash equivalents | **475** | 11,693 |
| | **149,892** | 152,205 |

The Group's credit risk is primarily attributable to trade receivables, other receivables, pledged bank balances and cash and cash equivalents. The management has a credit policy and the exposures to credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

# 37. Risk Management Objectives and Policies (continued)

### Credit risk (continued)

As at 31 March 2008, all pledged bank balances and cash and cash equivalents were deposited in banks without significant credit risk.

None of the Group's financial assets are secured by collateral or other credit enhancements.

### Fair values

The fair values of the Group's and the Company's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of borrowings is not disclosed because the carrying value is not materially different from the fair value.

### 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.

As at 31 March 2008 and 31 March 2007, the remaining contractual maturity of the Group's and the Company's financial liabilities which are based on undiscounted cash flows are summarised below:

| | Group | | | | |
|---|---|---|---|---|---|
| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to less than 6 months HK$'000 | 6 to less than 12 months HK$'000 | Over 1 year HK$'000 |
| At 31 March 2008 | | | | | |
| Trade and bill payables | – | 88,797 | – | – | – |
| Other payables and accruals | 9,483 | 41,728 | – | – | – |
| Interest-bearing bank and other borrowings | – | 8,058 | 39 | 17,655 | 390 |
| | 9,483 | 138,583 | 39 | 17,655 | 390 |

# 37. Risk Management Objectives and Policies (continued)

## Liquidity risk (continued)

| | Group | | | | |
|---|---|---|---|---|---|
| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to less than 6 months HK$'000 | 6 to less than 12 months HK$'000 | Over 1 year HK$'000 |
| At 31 March 2007 | | | | | |
| Trade and bill payables | – | 93,502 | – | – | – |
| Other payables and accruals | 15,026 | 34,023 | – | – | – |
| Interest-bearing bank and other borrowings | – | 7,505 | 9,872 | 251 | 690 |
| | 15,026 | 135,030 | 9,872 | 251 | 690 |

| | **Company** | | | | |
|---|---|---|---|---|---|
| | **On demand HK$'000** | **Less than 3 months HK$'000** | **3 to less than 6 months HK$'000** | **6 to less than 12 months HK$'000** | **Over 1 year HK$'000** |
| At 31 March 2008 | | | | | |
| Due to a subsidiary | **105** | **–** | **–** | **–** | **–** |
| Other payables and accruals | **–** | **1,112** | **–** | **–** | **–** |
| | **105** | **1,112** | **–** | **–** | **–** |

| | Company | | | | |
|---|---|---|---|---|---|
| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to less than 6 months HK$'000 | 6 to less than 12 months HK$'000 | Over 1 year HK$'000 |
| At 31 March 2007 | | | | | |
| Due to a subsidiary | 1,109 | – | – | – | – |
| Other payables and accruals | – | 1,391 | – | – | – |
| | 1,109 | 1,391 | – | – | – |

# 37. Risk Management Objectives and Policies (continued)

## Liquidity risk (continued)

The carrying amounts of the Group's and the Company's financial assets and liabilities recognised at the balance sheet dates may also be categorised as follows. See notes 3.13 and 3.21 for explanations on how the category of financial instruments affects their subsequent measurement.

### Financial assets

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Loans and receivables: | | |
| – Trade receivables | **116,825** | 112,159 |
| – Other receivables | **4,037** | 4,954 |
| Pledged bank balances | **2,261** | 2,110 |
| Cash and cash equivalents | **76,430** | 77,827 |
| | **199,553** | 197,050 |

| | Company | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Loans and receivables: | | |
| – Due from subsidiaries | **149,417** | 140,512 |
| Cash and cash equivalents | **475** | 11,693 |
| | **149,892** | 152,205 |

# 37. Risk Management Objectives and Policies (continued)

## Financial liabilities

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Financial liabilities measured at amortised cost: | | |
| – Trade and bill payables | **88,797** | 93,502 |
| – Other payables and accruals | **51,211** | 49,049 |
| – Interest-bearing bank and other borrowings | **26,142** | 18,318 |
| | **166,150** | 160,869 |

| | Company | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Financial liabilities measured at amortised cost: | | |
| – Due to a subsidiary | **105** | 1,109 |
| – Other payables and accruals | **1,112** | 1,391 |
| | **1,217** | 2,500 |

## 38. Capital Management

The Group's objectives when managing capital are:

(a) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;

(b) to support the Group's stability and growth; and

(c) to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

Management regards total equity as capital. The amount of capital as at 31 March 2008 and 2007 amounted to approximately HK$303,812,000 and HK$291,701,000 respectively which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.