

Notes to Financial Statements

31st March, 2001

1. GROUP REORGANISATION

The Company was incorporated in Bermuda on 26th July, 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange on Hong Kong Limited (the "Stock Exchange") in October 2000, the Company became the holding company of the companies now comprising the Group (as detailed in note 13 to the financial statements) on 18th September, 2000. This was accomplished by the Company acquiring the entire issued share capital of i-System Investment Company Limited ("i-System") in consideration and in exchange for the allotment and issue of a total of 1,000,000 shares of HK\$0.10 each in the Company credited as fully paid to the former shareholders of i-System. Further details of the Group reorganisation are set out in note 22 to the financial statements and in the Company's prospectus dated 29th September, 2000.

2. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- design and manufacture of production lines and production equipment
- distribution of brand name production equipment
- design and manufacture of consumer products
- provision of sub-contracting services

In the opinion of the directors, the ultimate holding company is Mind Seekers Investment Limited, a company incorporated in the British Virgin Islands.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention, except for the revaluation of investment properties and land and buildings.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Basis of preparation and consolidation

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group reorganisation which was completed on 18th September, 2000. On this basis, the Company has been treated as the holding company of its subsidiaries for the two years ended 31st March, 2001 presented rather than from the date of their acquisitions by the Company. Accordingly, the consolidated results and cash flows of the Group for each of the two years ended 31st March, 2001 include the results and cash flows of the Company and its subsidiaries with effect from 1st April, 1999 or since their respective dates of incorporation/establishment, where this is a shorter period. The comparative consolidated balance sheet as at 31st March, 2000 has been prepared on the basis as if the Group had been in existence at that date.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results, state of affairs and cash flows of the Group as a whole.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Comparative amounts have not been presented for the Company's balance sheet as the Company did not exist as at 31st March, 2000.

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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:

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- from the rendering of sub-contracting services, based on the stage of completion of the contract, provided that the revenues and the costs incurred can be measured reliably. The stage of completion of a contract is established by reference to the physical completion of a particular phase of the contract. Foreseeable losses on contracts in progress are recognised in full when identified;
- rental income, on a time proportion basis over the lease terms; and
- interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

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3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, are stated at cost or valuation less accumulated depreciation. The original cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated to write off the cost or valuation of each asset over its estimated useful life. Except for the leasehold land and buildings which are depreciated on a straight-line basis, all the fixed assets are depreciated on a reducing balance basis. The principal annual rates used for this purpose are as follows:

| | |
|------------------------------------------------|----------------------|
| Leasehold land | Over the lease terms |
| Buildings | 2% to 4.5% |
| Machinery and equipment | 9% to 25% |
| Furniture, fixtures and leasehold improvements | 18% to 25% |
| Motor vehicles | 25% |

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction and is stated at cost and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

All of the Group's fixed assets prior to the listing of the Company's shares on the Stock Exchange were stated at cost less accumulated depreciation. The financial effect arising from the remeasurement of certain of the Group's fixed assets on a valuation basis amounted to a surplus on revaluation in the amount of HK\$4,730,000 which was recognized in the asset revaluation reserve. Further details of the change in accounting policy for the remeasurement of the Group's fixed assets are set out in note 12 to the financial statements.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their valuation.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been diminutions in values other than those considered to be temporary in nature, when they are written down to values determined by the directors.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Notes to Financial Statements

31st March, 2001

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the profit and loss account on the straight-line basis over the lease terms.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Retirement scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Retirement Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Retirement Scheme. The Retirement Scheme became effective on 1st December, 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Retirement Scheme. The assets of the Retirement 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 Retirement 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 Retirement Scheme.

Pursuant to the relevant regulations of the government of the People's Republic of China excluding Hong Kong (the "PRC"), a subsidiary of the Group operating in the PRC participates in a retirement funds scheme managed by a local social security bureau. The contributions made to the Scheme are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable, in accordance with the rules of the scheme. The obligation of the Group with respect to the PRC retirement funds scheme is to pay these ongoing required contributions.

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Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Accounts receivable

Accounts receivable, which generally have 30-90 days' credit terms, are recognised and carried at original invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

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3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

4. TURNOVER

Turnover represents the net invoiced value of the services provided and the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-Group transactions have been eliminated on consolidation.

Revenue from the following activities have been included as turnover:

| Sun East Technology (Holdings) Limited • annual report 2001 | | 2001 | 2000 |
|----------------------------------------------------------------------------|---------------------------------------|-----------------|----------|
| | | HK\$'000 | HK\$'000 |
| | Sales of goods | 463,720 | 358,612 |
| | Provision of sub-contracting services | 45,400 | 44,015 |
| | | <hr/> | <hr/> |
| | | 509,120 | 402,627 |
| | | <hr/> | <hr/> |

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5. PROFIT FROM OPERATING ACTIVITIES

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

| | 2001 HK\$'000 | 2000 HK\$'000 |
|----------------------------------------------------------|------------------|------------------|
| Cost of inventories sold and services provided | 366,785 | 292,018 |
| Auditors' remuneration | 1,771 | 700 |
| Provision for slow-moving inventories | 5,303 | 1,151 |
| Provision for doubtful debts | 2,256 | 5,597 |
| Depreciation: | | |
| Owned fixed assets | 11,819 | 9,623 |
| Leased fixed assets | 206 | 1,322 |
| Operating lease rentals in respect of land and buildings | 747 | 287 |
| Staff costs (excluding directors' remuneration – note 6) | 37,212 | 28,443 |
| Less: amount included in research and development costs | (3,994) | (3,099) |
| | 33,218 | 25,344 |
| Provident fund | 173 | 225 |
| Deficit on revaluation of investment property | – | 2,351 |
| Research and development costs | 4,415 | 3,279 |
| Loss on disposal of fixed assets | 100 | – |
| Exchange losses/(gains), net | 372 | (458) |
| Interest income | (2,545) | (393) |
| Gross and net rental income | (84) | (90) |

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6. REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the directors' remuneration are as follows:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|------------------|------------------|------------------|
| Fees | – | – |
| Other emoluments | 3,073 | 2,210 |
| | 3,073 | 2,210 |

The remuneration for the year of each of the directors fell within the Nil – HK\$1,000,000 band.

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6. REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES (*continued*)

The five highest paid individuals in the Group during the year were all directors (2000: 4 directors) and information relating to their emoluments has been disclosed above. The emoluments paid to the remaining non-director, highest paid individual in 2000 were as follows:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|----------------------------------------------------------------------------|------------------|------------------|
| Basis salaries, housing benefits, other allowances and benefits in kind | <u>-</u> | <u>267</u> |

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the year.

7. FINANCE COSTS

| | Group | |
|-----------------------------------------------------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Interest on bank loans and overdrafts wholly repayable within five years | 567 | 375 |
| Interest on other loans | 280 | 404 |
| Interest on finance leases | 372 | 392 |
| Interest on amount due to a director | <u>-</u> | <u>64</u> |
| | <u>1,219</u> | <u>1,235</u> |

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8. TAX

| | Group | |
|--------------------------------|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Group: | | |
| Hong Kong | 3,157 | 478 |
| Elsewhere | 8,575 | 6,776 |
| Under provision in prior years | – | 120 |
| Deferred – note 21 | 597 | 2,501 |
| | <hr/> | <hr/> |
| Tax charge for the year | 12,329 | 9,875 |
| | <hr/> | <hr/> |

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant approved documents issued by the PRC tax authorities, a subsidiary of the Group operating in the PRC is exempted from PRC corporate income tax for the first two profitable calendar years of operation and thereafter is eligible for a 50% relief from PRC corporate income tax for the following three years. The standard PRC corporate income tax rate applicable to the subsidiary is 33%.

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the period from 26th July, 2000 (date of incorporation) to 31st March, 2001 was HK\$15,829,000.

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10. DIVIDENDS

| | Group | |
|--------------------------------------------------------|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Special dividend | 16,000 | – |
| Interim dividend – HK1 cent per ordinary share | 3,120 | – |
| Proposed final dividend – HK4 cents per ordinary share | 12,480 | – |
| | 31,600 | – |

The special dividend was paid by the following subsidiary of the Company to its then shareholders prior to the Group reorganisation during the year as follows:

| | 2001 | 2000 |
|-----------------------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Sun East Electronic Equipment Company Limited | 16,000 | – |

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$68,716,000 (2000: HK\$53,888,000) and the weighted average of 270,542,466 shares (2000: 234,000,000 shares) in issue during the year. The comparative number of shares used to calculate the 2000 earnings per share represents the pro forma issued share capital of the Company comprising 1,000,000 shares issued nil-paid on incorporation of the Company, 1,000,000 shares issued for the acquisition of the entire issued share capital of i-System and the capitalisation issue of 232,000,000 shares as further described in note 22 to the financial statements.

No diluted earnings per share for the two years ended 31st March, 2001 has been calculated as no diluting events existed during these years.

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12. FIXED ASSETS

Group

| | Investment property HK\$'000 | Leasehold land and buildings HK\$'000 | Machinery and equipment HK\$'000 | Furniture, fixtures and leasehold improvements HK\$'000 | Motor vehicles HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|--------------------------------|------------------------------------|------------------------------------------------|-------------------------------------------|------------------------------------------------------------------------|-------------------------------|-----------------------------------------|-------------------|
| Cost or valuation: | | | | | | | |
| At 1st April, 2000 | 1,500 | 40,073 | 53,646 | 6,776 | 4,160 | 493 | 106,648 |
| Additions | - | 12,076 | 2,827 | 2,174 | 823 | 6,239 | 24,139 |
| Transfers | - | 220 | - | - | - | (220) | - |
| Disposals | - | - | (202) | (208) | - | - | (410) |
| Surplus on revaluation | - | 1,241 | - | - | - | - | 1,241 |
| At 31st March, 2001 | 1,500 | 53,610 | 56,271 | 8,742 | 4,983 | 6,512 | 131,618 |
| Accumulated depreciation: | | | | | | | |
| At 1st April, 2000 | - | 1,891 | 15,800 | 2,680 | 2,130 | - | 22,501 |
| Provided during the year | - | 1,598 | 8,891 | 1,155 | 381 | - | 12,025 |
| Written back on disposals | - | - | (41) | (74) | - | - | (115) |
| Written back on revaluation | - | (3,489) | - | - | - | - | (3,489) |
| At 31st March, 2001 | - | - | 24,650 | 3,761 | 2,511 | - | 30,922 |
| Net book value: | | | | | | | |
| At 31st March, 2001 | 1,500 | 53,610 | 31,621 | 4,981 | 2,472 | 6,512 | 100,696 |
| At 31st March, 2000 | 1,500 | 38,182 | 37,846 | 4,096 | 2,030 | 493 | 84,147 |
| Analysis of cost or valuation: | | | | | | | |
| At cost | - | - | 56,271 | 8,742 | 4,983 | 6,512 | 76,508 |
| At valuation | 1,500 | 53,610 | - | - | - | - | 55,110 |
| | 1,500 | 53,610 | 56,271 | 8,742 | 4,983 | 6,512 | 131,618 |

The revaluation of leasehold land and buildings situated in Hong Kong and elsewhere in the PRC of HK\$4,130,000 and HK\$49,480,000, respectively were carried out by Castores Magi Surveyors Limited ("Castores"), an independent firm of professional qualified valuers, on an open market existing use basis and depreciated replacement cost basis, respectively, on 31st March, 2001. The surplus of HK\$4,730,000 so arising has been credited to the asset revaluation reserve. The Group's investment property was revalued on 31st March, 2001 on the open market existing use basis by Castores at HK\$1,500,000 (2000: HK\$1,500,000). No surplus or deficit arose therefrom.

Had the Group's revalued leasehold land and buildings been stated at cost less accumulated depreciation, the Group's total leasehold land and buildings would have been included in the financial statements at approximately HK\$48,880,000 (2000: HK\$38,182,000).

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12. FIXED ASSETS (*continued*)

The net book values of the fixed assets of the Group held under finance leases included in the total amounts of motor vehicles and machinery and equipment were as follows:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|-------------------------|------------------|------------------|
| Motor vehicles | 182 | 284 |
| Machinery and equipment | 644 | 4,275 |

The Group's investment property was situated in Hong Kong and was held under medium term lease.

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

| | 2001 HK\$'000 | 2000 HK\$'000 |
|-----------|------------------|------------------|
| Hong Kong | 4,130 | 2,619 |
| Elsewhere | 49,480 | 37,454 |
| | 53,610 | 40,073 |

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The Group's investment property and leasehold land and buildings, with net book values of HK\$1,500,000 and HK\$1,900,000, respectively as at 31st March, 2001, were pledged to the Group's bankers to secure banking facilities granted to the Group, as detailed in note 18 to the financial statements.

13. INTERESTS IN SUBSIDIARIES

| | Company 2001 HK\$'000 |
|--------------------------|-----------------------------|
| Unlisted shares, at cost | 115,668 |
| Due from subsidiaries | 36,704 |
| | 152,372 |

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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13. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows:

| Name | Place of incorporation/ establishment and operations | Nominal value of paid-up share/ registered capital | Attributable equity interest | Principal activities |
|------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------|--------------------------------------------------------------------|
| i-System Investment Company Limited | British Virgin Islands | US\$2,000 | 100% | Investment holding |
| Sun East Electronic Equipment Company Limited | Hong Kong | HK\$5,000,000 | 100% | Trading of machinery |
| Fulvan Manufacturing Limited | British Virgin Islands/PRC | US\$10 | 100% | Manufacture of machinery |
| Dystia Investments Inc. | British Virgin Islands | US\$10 | 100% | Provision of research and development and quality control services |
| Sherarson Intervest Company Ltd. | British Virgin Islands/PRC | US\$10 | 100% | Provision of quality control services |
| Pipersville Company Limited | British Virgin Islands/PRC | US\$10 | 100% | Provision of research and development services |
| Pro-Tech Industries Corp. | British Virgin Islands/PRC | US\$10 | 100% | Manufacture and trading of consumer electronic products |
| Rightrade Corporation | British Virgin Islands | US\$10 | 100% | Holding of trademarks and patent rights |
| Suneast Electronics Development (Shenzhen) Co., Ltd. | PRC | HK\$30,000,000 | 100% | Manufacture and trading of machinery |

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Except for i-System, all of the above subsidiaries are indirectly held by the Company.

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14. INVENTORIES

| | Group | |
|---------------------------------------------|----------------------|----------------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 30,621 | 26,339 |
| Work in progress | 15,516 | 8,443 |
| Finished goods | 9,986 | 5,894 |
| | <u>56,123</u> | <u>40,676</u> |
| Less: Provision for slow-moving inventories | <u>(6,454)</u> | <u>(1,151)</u> |
| | <u>49,669</u> | <u>39,525</u> |

As at 31st March, 2001, no inventories were stated at net realisable value (2000: Nil).

15. ACCOUNTS RECEIVABLE

As at 31st March, 2001, the aged analysis of the accounts receivable was as follows:

| | Group | |
|------------------------------------|----------------------|----------------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Within 90 days | 63,054 | 37,799 |
| 91 to 120 days | 6,187 | 3,915 |
| Over 120 days | 16,267 | 13,069 |
| | <u>85,508</u> | <u>54,783</u> |
| Less: Provision for doubtful debts | <u>(7,200)</u> | <u>(5,597)</u> |
| | <u>78,308</u> | <u>49,186</u> |

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16. ACCOUNTS AND BILLS PAYABLE

As at 31st March, 2001, the aged analysis of the accounts and bills payable was as follows:

| | Group | |
|----------------|---------------|---------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Within 90 days | 31,809 | 15,676 |
| 91 to 120 days | 1,117 | 2,600 |
| Over 120 days | 5,023 | 6,999 |
| | <u>37,949</u> | <u>25,275</u> |

17. INTEREST-BEARING BORROWINGS

| | Group | |
|--------------------------------------|--------------|---------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Bank overdrafts, secured – note 18 | 1,704 | 833 |
| Bank loans, unsecured | 4,673 | 935 |
| Loan from a related party, unsecured | – | 12,617 |
| Trust receipt loans | 2,897 | 1,760 |
| | <u>9,274</u> | <u>16,145</u> |

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The loan from a related party was unsecured, bore interest with reference to the bank's interest rate and was fully repaid during the current year.

18. CREDIT FACILITIES

The Group's secured bank borrowings as at 31st March, 2001 are secured by:

- (i) first legal charges on certain of the Group's leasehold land and buildings and its investment property located in Hong Kong with net book values of approximately HK\$1,900,000 and HK\$1,500,000 respectively;
- (ii) pledged bank deposits of HK\$5,000,000 (2000: HK\$1,408,000);
- (iii) second legal charges on the properties located in Hong Kong of a related company; and
- (iv) a second legal charge on a property located in Hong Kong of a director.

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19. FINANCE LEASE PAYABLES

There were obligations under finance leases at the balance sheet date as follows:

| | Group | |
|-------------------------------------------|-----------------|-----------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Amounts payable: | | |
| Within one year | 449 | 965 |
| In the second year | 153 | 83 |
| In the third to fifth years, inclusive | — | 83 |
| | <hr/> | <hr/> |
| Total minimum finance lease payments | 602 | 1,131 |
| Future finance charges | (85) | (370) |
| | <hr/> | <hr/> |
| Total net finance lease payables | 517 | 761 |
| Portion classified as current liabilities | (393) | (625) |
| | <hr/> | <hr/> |
| Long term portion | 124 | 136 |
| | <hr/> | <hr/> |

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20. BALANCES WITH DIRECTORS

Particulars of the amount due from a director disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

| | Maximum amount | | |
|-------------------|-----------------------|--------------------|-------------------|
| | At | outstanding | At |
| | 31st March, | during | 1st April, |
| | 2001 | the year | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Mr. But Ting Hing | — | 16,000 | — |
| | <hr/> | <hr/> | <hr/> |

During the year, a special dividend of HK\$16,000,000 was settled through the current account with a director. The amounts due to directors were unsecured, repayable on demand and, except for an amount due to a director of HK\$800,000 as at 31st March, 2000 which bore interest at 12% per annum, all the remaining balances were interest-free.

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21. DEFERRED TAX

| | 2001 HK\$'000 | 2000 HK\$'000 |
|------------------------------|--------------------------------|--------------------------------|
| At 1st April, | 2,501 | — |
| Charge for the year – note 8 | 597 | 2,501 |
| | <hr/> | <hr/> |
| At 31st March, | 3,098 | 2,501 |
| | <hr/> | <hr/> |

The principal components of the Group's provision for deferred tax are as follows:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|-------------------------------------|--------------------------------|--------------------------------|
| Accelerated depreciation allowances | 3,098 | 2,800 |
| Tax losses | — | (299) |
| | <hr/> | <hr/> |
| At 31st March, | 3,098 | 2,501 |
| | <hr/> | <hr/> |

As at 31st March, 2001, the Group and the Company did not have any significant unprovided deferred tax liabilities.

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22. SHARE CAPITAL

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| | Company 2001 HK\$'000 |
|------------------------------------------------------------------------|--------------------------------------------------|
| Authorised: 2,000,000,000 ordinary shares of HK\$0.10 each | 200,000 |
| | <hr/> |
| Issued and fully paid: 312,000,000 ordinary shares of HK\$0.10 each | 31,200 |
| | <hr/> |

Notes to Financial Statements

31st March, 2001

22. SHARE CAPITAL (*continued*)

The following changes in the Company's authorised and issued share capital took place during the period from 26th July, 2000 (date of incorporation) to 31st March, 2001:

- (i) On incorporation, the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were issued and allotted nil paid on 18th August, 2000.
- (ii) On 18th September, 2000, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000,000 by the creation of an additional 1,999,000,000 shares of HK\$0.10 each.
- (iii) On 18th September, 2000, as part of the Group reorganisation set out in note 1 to the financial statements, the Company issued an aggregate of 1,000,000 shares of HK\$0.10 each credited as fully paid in consideration for the acquisition of the entire issued share capital of i-System. The excess of the fair value of the shares of i-System, determined on the basis of the consolidated net assets of i-System, at that date over the nominal value of the Company's shares issued in exchange therefor, amounting to HK\$115,568,000, was credited to the Company's contributed surplus as set out in note 23 to the financial statements.
- (iv) On 18th September, 2000, HK\$100,000, being a portion of the amount credited to the contributed surplus of the Company on the issue of shares in exchange for the shares of i-System as set out in (iii) above, was applied to pay up in full at par value the 1,000,000 shares issued and allotted nil paid on 18th August, 2000.
- (v) On 19th September, 2000, a total of 232,000,000 shares of HK\$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their respective shareholdings at the close of business on that date by way of the capitalisation of the sum of HK\$23,200,000 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the new share issue to the public on 12th October, 2000.
- (vi) On 12th October, 2000, 78,000,000 shares of HK\$0.10 each were issued to the public at HK\$1.18 each for a total cash consideration, before expenses, of HK\$92,040,000.

Notes to Financial Statements

31st March, 2001

22. SHARE CAPITAL (*continued*)

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

| | Number of shares issued '000 | Par value HK\$'000 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------------------|
| Shares allotted and issued nil paid on incorporation | 1,000 | – |
| Shares issued as consideration for the acquisition of the entire issued share capital i-System | 1,000 | 100 |
| Application of contributed surplus to pay up nil paid shares | – | 100 |
| Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the public share issue | 232,000 | – |
| Pro forma issued share capital at 31st March, 2000 | 234,000 | 200 |
| New issue on public listing | 78,000 | 7,800 |
| Capitalisation of the share premium account as set out above | – | 23,200 |
| At 31st March, 2001 | <u>312,000</u> | <u>31,200</u> |

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Share options

On 19th September, 2000, under the terms of the Company's share option scheme ("the Option Scheme") adopted by the Company conditional upon the listing of the Company's shares on the Stock Exchange, the directors of the Company were authorised, on or before 18th September, 2010, at their discretion to invite any employee, including any executive director of the Company or any of its subsidiaries, to take up options to subscribe for the shares of the Company. The Option Scheme subscription price is equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options. The maximum number of shares in respect of which options may be granted under the Option Scheme will not exceed 10% of the share capital of the Company in issue from time to time (except shares issued pursuant to the exercise of any options granted under the Option Scheme), and the maximum number of shares in respect of which options may be granted to any one director or employee may not exceed 25% of the maximum number of shares in respect of which options may be granted under the Option Scheme. The Option Scheme became effective upon the listing of the Company's shares on 16th October, 2000.

Up to the date of this report, no share options have been granted under the Option Scheme.

Notes to Financial Statements

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23. RESERVES

| | Share premium <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> <i>(Note a)</i> | Asset revaluation reserve <i>HK\$'000</i> | Exchange fluctuation reserve <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-----------------------------------------------------|-------------------------------------|--------------------------------------------------------------|----------------------------------------------------|-------------------------------------------------------|----------------------------------------|--------------------------|
| Group | | | | | | |
| At 1st April, 1999 | – | 4,800 | – | (74) | 41,428 | 46,154 |
| Net profit for the year | – | – | – | – | 53,888 | 53,888 |
| Translation differences arising on consolidation | – | – | – | (43) | – | (43) |
| At 31st March, 2000 and 1st April, 2000 | – | 4,800 | – | (117) | 95,316 | 99,999 |
| Issue of shares | 84,240 | – | – | – | – | 84,240 |
| Share issue expenses | (11,034) | – | – | – | – | (11,034) |
| Capitalisation issue of shares – note 22 | (23,200) | – | – | – | – | (23,200) |
| Translation differences arising on consolidation | – | – | – | (23) | – | (23) |
| Revaluation surplus | – | – | 4,730 | – | – | 4,730 |
| Net profit for the year | – | – | – | – | 68,716 | 68,716 |
| Dividends | – | – | – | – | (31,600) | (31,600) |
| At 31st March, 2001 | 50,006 | 4,800 | 4,730 | (140) | 132,432 | 191,828 |

Notes to Financial Statements

31st March, 2001

23. RESERVES (continued)

| | Share premium | Contributed surplus | Asset revaluation reserve | Exchange fluctuation reserve | Retained profits | Total |
|---------------------------------------------------------------------------|---------------|---------------------|---------------------------|------------------------------|------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | (Note b) | | | | |
| Company | | | | | | |
| Arising on acquisition of i-System | - | 115,568 | - | - | - | 115,568 |
| Applied in payment of 1,000,000 shares allotted nil paid on incorporation | - | (100) | - | - | - | (100) |
| Issue of shares | 84,240 | - | - | - | - | 84,240 |
| Share issue expenses | (11,034) | - | - | - | - | (11,034) |
| Capitalisation issue of shares – note 22 | (23,200) | - | - | - | - | (23,200) |
| Net profit for the period | - | - | - | - | 15,829 | 15,829 |
| Dividends | - | - | - | - | (15,600) | (15,600) |
| At 31st March, 2001 | <u>50,006</u> | <u>115,468</u> | <u>-</u> | <u>-</u> | <u>229</u> | <u>165,703</u> |

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Note:

- (a) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation, as set out in note 1 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor.
- (b) The contributed surplus of the Company represents the excess of the then combined net asset value of the subsidiaries acquired pursuant to the same reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is distributable to shareholders under certain circumstances.

Notes to Financial Statements

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24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

| | 2001 HK\$'000 | 2000 HK\$'000 |
|-----------------------------------------------------------------------|------------------|------------------|
| Profit from operating activities | 82,264 | 64,998 |
| Interest income | (2,545) | (393) |
| Depreciation | 12,025 | 10,945 |
| Deficit arising from revaluation of investment property | – | 2,351 |
| Loss on disposal of fixed assets | 100 | – |
| Provision for slow-moving inventories | 5,303 | 1,151 |
| Provision for doubtful debts | 2,256 | 5,597 |
| Increase in inventories | (15,447) | (26,375) |
| Increase in accounts receivable | (31,378) | (18,805) |
| Decrease/(increase) in prepayments, deposits and other receivables | (3,320) | 9,207 |
| Increase/(decrease) in accounts and bills payable | 12,674 | (16,002) |
| Increase in accruals and other payables | 954 | 22,131 |
| Decrease in amounts due to related companies | – | (1,358) |
| Net cash inflow from operating activities | <u>62,886</u> | <u>53,447</u> |

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the years

| | Share capital and share premium account <i>HK\$'000</i> | Bank loans <i>HK\$'000</i> | Loan from a related party <i>HK\$'000</i> | Finance lease obligations <i>HK\$'000</i> |
|--------------------------------------------|------------------------------------------------------------------------|-------------------------------|-------------------------------------------------------|----------------------------------------------------|
| At 1st April, 1999 | 200 | 935 | 8,691 | 44 |
| Cash inflow/(outflow) from financing | – | (202) | 3,926 | (9,436) |
| Inception of finance lease contract | – | – | – | 284 |
| Acquisition of net assets | – | 202 | – | 9,869 |
| At 31st March, 2000 and 1st April, 2000 | 200 | 935 | 12,617 | 761 |
| Cash inflow/(outflow) from financing | 81,006 | 3,738 | (12,617) | (1,050) |
| Inception of finance lease contract | – | – | – | 806 |
| At 31st March, 2001 | <u>81,206</u> | <u>4,673</u> | <u>–</u> | <u>517</u> |

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(c) Major non-cash transactions

- (i) The reorganisation of the Group in preparation for the public listing of the Company's shares on the Stock Exchange involved the acquisition of i-System by the issue of shares, further details of which are set out in notes 1 and 22 to the financial statements.
- (ii) 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 HK\$806,000.
- (iii) During the year, a special dividend of HK\$16,000,000 was settled through the current account with a director.

Notes to Financial Statements

31st March, 2001

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Acquisition of net assets of a partnership

Net assets acquired:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|-------------------------------|------------------|------------------|
| Fixed assets | - | 19,079 |
| Inventories | - | 1,683 |
| Trade and other receivables | - | 16,505 |
| Cash and bank balances | - | 272 |
| Bank overdrafts | - | (1,344) |
| Bank loans, secured | - | (202) |
| Trade and other payables | - | (9,194) |
| Finance lease payables | - | (9,869) |
| Current account with partners | - | (16,930) |
| | <u>-</u> | <u>-</u> |

Satisfied by:

| | | |
|------|----------|--------------|
| Cash | <u>-</u> | <u>HK\$1</u> |
|------|----------|--------------|

Analysis of the net cash outflow in respect of the acquisition of net assets:

| | HK\$'000 | HK\$'000 |
|--------------------------|----------|----------------|
| Cash acquired | - | 272 |
| Bank overdrafts acquired | - | (1,344) |
| | <u>-</u> | <u>(1,072)</u> |

The business acquired during the year ended 31st March, 2000 contributed HK\$71,524,000 to the Group's turnover and a net profit of HK\$17,641,000 to Group's results for the year ended 31st March, 2000.

Notes to Financial Statements

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25. COMMITMENTS

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

| | 2001 | 2000 |
|------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Capital commitments in respect of building construction contracted, but not provided for | 6,414 | 11,176 |
| Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring: | | |
| Within one year | 284 | 321 |
| In the second to fifth years, inclusive | 703 | – |
| After five years | 3,224 | – |
| | 4,211 | 321 |

The Company did not have any significant commitments at the balance sheet date.

26. CONTINGENT LIABILITIES

| | Group | | Company | |
|----------------------------------------------------------|-----------------|----------|-----------------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Bills discounted with recourse | 1,869 | – | – | – |
| Guarantees of banking facilities granted to subsidiaries | – | – | 85,600 | – |

At the balance sheet date, credit facilities supported by guarantees provided by the Company to its subsidiaries were not yet utilised.

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27. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the financial statements, the Group had transactions with related parties during the year as follows:

| | <i>Notes</i> | 2001 HK\$'000 | 2000 <i>HK\$'000</i> |
|----------------------------------------------------------------------------------------------------------------|--------------|--------------------------------|-------------------------|
| Disposal of a club membership to a director | (i) | – | 6,480 |
| Interest paid to a director | (ii) | – | 64 |
| Interest paid to a related party | (ii) | 280 | 229 |
| Purchase of machinery, equipment and leasehold improvements from Mason (Far East) Industries Company ("Mason") | (iii) | – | 3,243 |
| Processing fees paid to Mason | (iv) | – | 1,665 |
| | | <u> </u> | <u> </u> |

Notes:

- (i) The club membership was disposed according to its net book value as at the date of disposal.
- (ii) The interest paid to a director and a related party relates to loans granted, further details of which are included in notes 17 and 20 to the financial statements.
- (iii) Mason is beneficially owned by a brother of a director of the Company. The prices of the machinery, equipment and leasehold improvements were determined by the actual cost incurred by Mason.
- (iv) The basis of the processing fees was determined by the Group and Mason.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 30th August, 2001.