

Management Discussion and Analysis

Sun East Technology (Holdings) Limited • 2005 Annual Report

Financial Results

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

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

Liquidity and Capital Structure

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

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

Financial Resources

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

Management Discussion and Analysis

Sun East Technology (Holdings) Limited • 2005 Annual Report

Financial Resources (continued)

As a significant portion of the Group's sales and purchases are denominated in Hong Kong dollars and Renminbi, in view of the stability of the exchange rate of Hong Kong dollars and Renminbi, the directors consider that the Group has no significant exposure to foreign exchange fluctuation. During the year, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 March 2005.

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

Contingent Liabilities

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

During the year, a customer of a subsidiary of the Company filed a civil complaint against the subsidiary in the District Court of Zengcheng, the PRC (the "Action"). In the Action, the customer alleged that the subsidiary had breached certain conditions in a construction contract (the "Contract") including delay in assembling a production line.

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

Capital Commitments

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

Capital Commitments are to be financed by internal resources.

Management Discussion and Analysis

Sun East Technology (Holdings) Limited • 2005 Annual Report

Employees and Remuneration Policies

As at 31 March 2005, the Group employed approximately 1,700 full time employees of which approximately 1,650 were in the PRC and approximately 50 were in the Hong Kong office.

The Group remunerates its employees based on industry's practice. In the PRC, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, the Group provide provides staff benefits including medical scheme, pension scheme and performance related bonuses.

Business Review

The Group's overall business development for the financial year under review had been satisfactory with a sustainable turnover growth. Current year's turnover amounted to HK\$522 million, representing an increase of 18 per cent from the previous year. Such a hike was attributed to two main reasons. Firstly, our market and the overall economy had been recovering from the SARS gloom in 2003, which helped to enlarge our market share. Secondly, the European Union's ("EU") new directive on environmental protection to be effective next year prohibits the use of lead soldering machines. The demand for "lead-free" equipment usage had been driving the rapid growth of lead-free soldering equipment produced by the Group.

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

By market analysis, China and Hong Kong accounted for 79 per cent and 17 per cent of the Group's turnover for the 2004-2005 financial year, while the rest was derived from turnover from exports to European Union.

Management Discussion and Analysis

Sun East Technology (Holdings) Limited • 2005 Annual Report

Performance Analysis

As an upstream industrial manufacturer, the Group is principally engaged in the supply of production equipment for manufacturers in electronic industry. The Group's operations are divided into four major divisions, namely electronics assembly equipment, automated production line, semiconductor packaging equipment and sheet metal fabrication.

1. Electronics Assembly Equipment

Electronics assembly equipment is the Group's core business, which includes the manufacture and trading of soldering equipment, distribution of pick and place machines, and production and sale of screen printers, and related design and supplementary services. The sales accounted for approximately 70 per cent of the Group's turnover in 2004-2005.

a. *Soldering Equipment*

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

The Group had set up a jointly-controlled entity ("JV") with production plant in Shenzhen with Rehm-Anlagenbau GmbH, a renowned German soldering equipment producer, specializing in high precision reflow soldering equipment, the production plant commenced full operation in July 2004, enhancing the Group's share and status in the high-ended soldering market as well as its R & D capability. Given its advanced technological level, the gross profit margin of the soldering equipment was higher than that of the Group's conventional products.

b. *Pick and Place Machines*

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

Performance Analysis (continued)

1. Electronics Assembly Equipment (continued)

c. *Screen Printer*

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

2. Automated Production Line

The Group provides automated production line solution to its customers in addition to the supply of production equipment and the design and assembly of production lines. This allows the Group to offer turn-key services thus increase the sales of its self-produced and distributed products.

3. Semiconductor Packaging Equipment

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

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

4. Sheet Metal Fabrication

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

Management Discussion and Analysis

Sun East Technology (Holdings) Limited • 2005 Annual Report

Prospects

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

According to CCID Consulting's report, the annual growth rate of China's SMT equipment market from 2005 to 2009 will be 16 per cent. In 2009, the size of China's SMT equipment market will be RMB 46,540 million, accounting for 42.8 per cent of the global SMT market. As the largest soldering equipment producer in Hong Kong and mainland China, the Group will benefit from the rapid growth of soldering equipment market.

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

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

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

Management Discussion and Analysis

Sun East Technology (Holdings) Limited • 2005 Annual Report

Prospects (continued)

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

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

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

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

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