Financial Results

Summary of the financial results of the Group for the year ended 31 March 2006 are as follows:

– Turnover was HK$458 million (2005: HK$522 million), represented a decrease of approximately 12%.

– Loss before tax was HK$38 million (2005: Profit before tax of HK$34 million).

– Loss for the year was HK$37 million (2005: Profit of HK$32 million).

– Basic loss per share was HK$9.91 cents (2005: Basic earnings per share of HK$8.99 cents).

Business Review

During the year under review, turnover decreased by 12 percent compared to the previous year. Increasingly competitive market environment, rising wages, surging production costs and difficulty in raising prices had impacted the Group's profit. Gross profit margin had therefore decreased from 19 percent to 11 percent.

In addition, the Group's results for the year have been adversely affected mainly by (i) a significant increase in provision for doubtful debts in view of the inability of certain customers to settle their long overdue debts; (ii) provisions taken against certain redundant facilities; (iii) the writing down to their recoverable amounts in respect of inventory items identified to be slow-moving or obsolete; (iv) increase in staff costs due to rising wages in Shenzhen, and (v) the expense relating to the granting of share options during the year.

Performance Analysis

As an upstream industrial manufacturer, the Group is principally engaged in the supply of production equipment for manufacturers in the electronics industry. The Group's operations are divided into four major divisions, namely, electronics assembly equipment, automated production line, semiconductor packaging equipment and sheet metal fabrication. By market analysis, China and Hong Kong accounted for 74 percent and 17 percent of the Group's turnover for the 2005-2006 financial year, while the rest was derived from exports to overseas countries.

1. Electronics Assembly Equipment

Electronics assembly equipment is the Group's core business, which includes manufacturing and trading of soldering equipment, distribution of pick and place machines, and production and sale of screen printers, and related design and supplementary services.

The Group understands that environmental protection will be an important issue for the electronics industry in China. It therefore signed a memorandum of understanding with Shenzhen SZ-HK Productivity Foundation Company Limited on 30 August 2005 and became the founding member of the Shenzhen-Hong Kong Green Production Technology Centre .

a. *Soldering Equipment*

The Group is principally engaged in design, manufacture and trading of soldering equipment. With the implementation of European Union's RoHS directive ("The restriction of the use of certain hazardous substances in electrical and electronics equipment") starting from 1 July 2006, large corporations in mainland China had basically completed the upgrading to lead-free equipment. However, small and mid-size enterprises have adopted a wait-and-see attitude about the impacts of these regulations, resulting in a stable turnover recorded during the review period. It is anticipated that additional orders for lead-free equipment will be confirmed upon the introduction of lead-free legislation in other countries, including China.

Sun East places heavy emphasis on research and product development. The Group continues to devote substantial resources to this area and has achieved satisfactory results. Genesis, a hot air re-flow system launched by the Group, received the Hong Kong Awards for Industries 2005. This is the second time that Sun East has received this highly-acclaimed industry accolade in the past three years. Newly developed wave soldering system and lead-free hot air reflow system are expected to be launched in the near future.

Performance Analysis (continued)

1. Electronics Assembly Equipment (continued)

a. *Soldering Equipment (continued)*

The Group has set up a jointly-controlled entity ("JV") with Rehm-Anlagenbau GmbH, a renowned German soldering equipment producer specializing in high precision reflow soldering equipment to enhance the Group's positioning in the high-end soldering equipment market. With China focusing on the development of high-end and innovative products as a key growth strategy for the country, demand for high precision reflow soldering equipment is expected to increase gradually.

b. *Pick and Place Machines*

The Group is principally engaged in the distribution of pick and place machines of internationally well-known brands. It is the exclusive distributor of Samsung Techwin pick and place machines in Mainland China and Hong Kong, and has been the brand's top distributor in terms of sales around the world. Samsung Techwin is one of the best-selling brands for the medium-end pick and place machine market in China. During the period under review, market demand for pick and place machine had been stable. However, Japanese manufacturers' low-price tactics, together with the depreciation of the Japanese yen, led to a significant price drop and created intense competitive pressure.

c. *Screen Printer*

To expand the screen printer business, the Group has made continuous efforts in strengthening the research and development and production capacity. These efforts have borne some fruits. During the period under review, screen printing sales increased by more than 30%. This was resulted from the burgeoning demand for automatic screen printing machines in mainland China, along with the increase brand recognition of Sun East's products within the industry.

The Group has embarked on a two-pronged strategy to capture this business opportunity. On the one hand, Sun East signed a distribution agreement with Obertech, an internationally renowned Automatic Optical Inspection (AOI) equipment manufacturer, to complement the Group's product offerings. On the other hand, the Group has carried on enhancing product quality. For example, a new model SEM668 was launched to bolster Sun East's leading position in the industry. Regarding sales strategies, the Group will target large corporations as its products have price advantages over imported machines, and the company enjoys a high reputation within the industry.

Performance Analysis (continued)

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.

Fierce competition in the electronics industry had dwarfed the business during the period under review. However, substantial capital requirement poses a high entry barrier for smaller companies to compete with corporations such as Sun East. The Group will continue to reduce costs, improve product quality and raise production capacity to maintain the Group's leading position in the industry.

3. Semiconductor Packaging Equipment

The Group has been actively developing its semiconductor packaging equipment business and recorded an increase in sales during the period under review. This is primarily due to the expansion of LED market, driving demand for Chip on Glass ("COG") equipment. It is also because the Group's semiconductor packaging technology is getting more mature.

The Group's semiconductor packaging business covers two main types of product: Chip on Board ("COB") and Chip on Glass ("COG") equipment. The Group's COB equipment has a comparative price advantage over those imported brands with similar functionality. Currently, the Group's manual COG enjoys high recognition in Southern China. But price competition in the manual COG equipment market was becoming more severe. The development of semi-auto or automatic equipments catering for packaging larger-size chips will be the future direction.

In addition, companies currently using manual wire bonding machines are now switching to automatic ones. The Group is in the process of developing low-cost automative wire bonding machines as this group of customers is growing and can become important potential clients.

The Group will focus on external cooperation with overseas corporations and research institutions to develop its semiconductor packaging equipment business. It will also introduce appropriate products or technologies that suit the needs of the China market and look for opportunities for self-development or joint ventures for further growth. The Group is in the process of partnering with a Korean enterprise for joint production in this business.

Performance Analysis (continued)

4. Sheet Metal Fabrication

The Group's sheet metal fabrication business is well developed and generated favourable cash flow. Sales increased by 36% compared to the previous year. Apart from supplying metal parts for internal consumption, the business had been providing parts for internationally renowned customers including Konica and Panasonic, as well as metal parts for medium to high-end products.

During the period under review, the sheet metal fabrication market was positive with a stable growth trend. With increased efforts in developing new customers, the Group has successfully acquired orders from new customers including Japanese brands San-Es and TWG. These new customers come from various industries (OA, self-service equipment and electronics industries) which help us develop different markets. The Group expects that approximately HK$5 million to HK$10 million can be generated from each new client.

Prospects

Looking into the future, China will continue to be the global electronics product manufacturer and attract investments from more overseas electronics manufacturers. The Eleventh Five-Year-Plan outlined at the beginning of the year stresses the importance of China progressing to a self-sustained, innovative and environmentally-friendly economy. The electronics industry, which contributes to over 15% of the mainland China's GDP, has to increase its technology content while at the same time meet the environmental standards. Furthermore, the Guangdong province government now proactively pushes the electronics product industry to move upmarket. It is anticipated that these macro-economic factors will edge up the demand for high-end and environmentally-friendly electronic assembly equipment.

Regulatory changes will be another driving force to speed up the adoption of green electronics assembly equipment. The European Union's RoHS directive became effective on 1 July 2006. "Bill on the Prevention of Toxins in Electronic Products" has been drafted in China and "Measures on the Control and management of Pollution Caused by Electronic Information Products" is expected to be promulgated in the near term. These will propel the sales of quality lead-free electronic assembly equipment, which in turn benefits Sun East.

Prospects (continued)

Sun East is now firmly established in the Pearl River Delta, the hub for electronics product manufacturers. A CCID Consulting report estimated that the demand growth of SMT equipment will be relatively faster in Yangtze River Delta and Bohai region in the next couple of years. As the Group has achieved significant brand recognition in Southern China region, management attention will be focused on expanding businesses in Yangtze River Delta to increase market share and further boost sales. The CCID Consulting report estimated that between 2005 and 2009, the compound annual growth rate for the electronics assembly equipment market will be 12.6 percent and 18.5 percent for the Yangtze River Delta and Bohai region respectively.

The environment in which the Group operates is full of opportunities yet highly-competitive. To maintain Sun East's leading position, the Group will continue to invest in product development by strengthening cooperation with universities and research institutes and identifying potential acquisition targets and strategic partners to upgrade product level. For soldering equipment business, focus will be placed on developing high-end, digitalised products. For screen printer business, the Group will continue to enhance product quality. For sheet metal fabrication business, the Group aims to raise product quality and introduce advance machineries to reduce manpower.

To support the launch of new products, the Group will strengthen marketing and promotion efforts by joining overseas trade shows and increasing promotion in the trade media.

Liquidity and Capital Structure

As at 31 March 2006, the Group had current assets of HK$287 million (2005: HK$323 million) mainly comprising prepayments, deposits and other receivables of HK$23 million (2005: HK$12 million), inventories of HK$95 million (2005: HK$85 million), accounts receivable of HK$96 million (2005: HK$153 million) and cash in banks of HK$73 million (2005: HK$71 million). The Group had current liabilities of HK$169 million (2005: HK$187 million). The current ratio decreased from 1.73 as at 31 March 2005 to 1.69 as at 31 March 2006.

At 31 March 2006, the Group had total assets of HK$450 million (2005: HK$500 million) and total liabilities of HK$180 million (2005: HK$191 million). The gearing ratio (calculated as a percentage of debt to equity) was 10% (2005: 12%).

Financial Resources

At 31 March 2006, the Group had fixed and floating interest-bearing bank borrowings of HK$26 million (2005: HK$35 million), of which HK$18 million (2005: HK$33 million) are denominated in Renminbi and mainly used for the PRC's operating expenses and working capital. Approximately 75% of the Group's bank borrowings are repayable within one year.

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 2006.

As at 31 March 2006, cash and bank balances amounted to HK$71 million (2005: HK$69 million), of which HK$10 million (2005: HK$20 million) are denominated in Renminbi and the majority of the remaining balances are denominated in Hong Kong dollars.

Contingent Liabilities

On 28 July 2004, 廣州寶龍集團輕型汽車製造有限公司("寶龍"), a company operating in Zengcheng, the PRC and a customer of 西菲士表面處理工程(深圳)有限公司("西菲士"), a subsidiary of the Company, filed a civil complaint against 西菲士 in the District Court of Zengcheng, the PRC (the "Action"). In the Action, 寶龍 alleged that 西菲士 had breached certain conditions in a construction contract (the "Contract") including delay in assembling a production line. In the Action, 寶龍 claimed for the sum of RMB1,000,000 as compensation, the recovery of certain documents and information of the production line, and respective legal costs against 西菲士. 西菲士 was defending itself against this Action and has counter-claimed 寶龍 for approximately RMB6,116,000 as compensation for costs incurred on the production line and the related legal costs against 寶龍.

A provision of HK$4,070,000 was made in the prior year for foreseeable losses on the construction cost incurred under the contract. Having sought advice from the Company's PRC legal advisers, the directors are of the opinion that the Action is unlikely to succeed based on the merits of the case and therefore, the directors consider that no further material liability is likely to result therefrom.

Capital Commitments

As at 31 March 2006, the Group had no material capital commitments. The Group had commitments in respect of equity injections into its PRC subsidiaries amounting to HK$10,000,000 as at 31 March 2005.

Charges on group assets

Certain of the Group's bank loans are secured by:

(i) a first legal charge on the Group's investment property situated in Hong Kong, which had a carrying value at the balance sheet date of HK$2,020,000 (2005: HK$1,940,000);

(ii) a first legal charge on certain of the Group's land and buildings, which had an aggregate net book value at the balance sheet date of HK$1,960,000 (2005: HK$1,790,000);

(iii) a first legal charge on the Group's motor vehicle, which had net book value at the balance sheet date of HK$230,000 (2005: HK$312,000);

(iv) corporate guarantees provided by the Company.

Employees and Remuneration Policies

As at 31 March 2006, 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 provides staff benefits including pension scheme and performance related bonuses.