

# 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 2006.

## 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 loss for the year ended 31 March 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 108.

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 Property

Details of movements in the property, plant and equipment and investment property of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

## Share Capital and Share Options

There were no movements in either the Company’s authorised or issued share capital during the year. Details of the Company’s issued share capital are set out in note 29 to the financial statements.

Details of movements in the Company’s share options during the year are set out in note 30 to the financial statements.

## Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 31(b) to the financial statements and in the consolidated summary statement of changes in equity, respectively.

## Distributable Reserves

At 31 March 2006, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK\$120,514,000. In addition, the Company's share premium account, in the amount of HK\$85,650,000, may be distributed in the form of fully paid bonus shares.

## Charitable Contributions

During the year, the Group made charitable contributions totalling HK\$355,000.

## Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 44% of total purchases for the year and purchases from the largest supplier included therein amounted to approximately 38%.

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\* (appointed on 20 May 2005)

Mr. Yau Wing Keung, Frankie\* (appointed on 20 May 2005)

Mr. Au Son Yiu (resigned on 20 May 2005)

Mr. Goh Gen Cheung (resigned on 20 May 2005)

\* Members of the audit committee

# Report of the Directors

## Directors (continued)

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

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

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

## Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group 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.

## Share Option Scheme

The directors have estimated the values of the share options granted during the year, calculated using the Black-Scholes option pricing model as at the date of grant of the options:

Grantee	Number of options granted during the year	Theoretical value of share options
		HK\$
Directors	31,200,000	4,992,000

The Black-Scholes option pricing model is a generally accepted method of valuing options, which was developed to estimate the fair value of the American style share options. The significant assumptions used in the calculation of the values of the share options were:

- Risk-free rate of return – the yield of 3-year Exchange Fund Notes of Hong Kong
- Expected volatility of share price – annualised volatility for one year immediately preceding the grant date
- Expected dividend yield – annual dividend for the most recent financial year and the closing price on the grant date

The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of share options calculated using the Black-Scholes model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

# Report of the Directors

## Directors' Interests in Shares and Underlying Shares

At 31 March 2006, 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:

### Long positions in ordinary shares of the Company:

Name	Number of ordinary shares held and type of Interest			Percentage of the Company's issued share capital
	Corporate	Personal	Total	
Mr. But Tin Hing	157,575,600 *	750,000	158,325,600	42.22
Mr. But Tin Fu	157,575,600 *	4,090,000	161,665,600	43.11
Mr. Leung Cheong	157,575,600 *	1,030,200	158,605,800	42.29
Mr. Leung Kuen, Ivan	157,575,600 *	5,311,800	162,887,400	43.44

\* The 157,575,600 shares are held by Mind Seekers Investment Limited ("Mind Seekers"), a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Messrs. But Tin Hing, But Tin Fu, Leung Cheong and Leung Kuen, Ivan, 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 30 to the financial statements.

Save as disclosed above, as at 31 March 2006, 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' 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 2006, the following interest of 5% or more in the issued share capital and share options of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

#### Long position

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mind Seekers	Directly beneficially owned	157,575,600	42.02

Save as disclosed above, as at 31 March 2006, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' interests in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to 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.

# Report of the Directors

## 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

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**But Tin Fu**

*Chairman*

Hong Kong

27 July 2006